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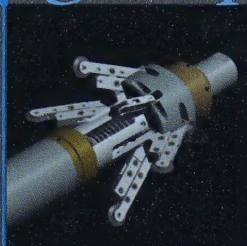
Keep  
1999  
②

# PRECISION

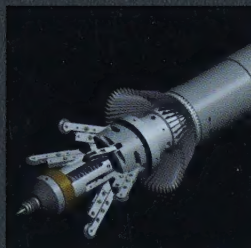
*Drilling Corporation*



more than ...



meets the eye



*Annual Report* **1999**



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**IMAGES IN THIS ANNUAL REPORT:****Page 5**

A wireline engineer monitors data acquisition from downhole tools in one of Computalog's state-of-the-art wireline trucks.

**Page 11**

Precision's breadth of services and technology can now be offered in an integrated approach.

**Page 39**

The establishment of Advantage Engineering Services, Inc. in Houston, Texas demonstrates Precision's commitment to cutting-edge research and development.

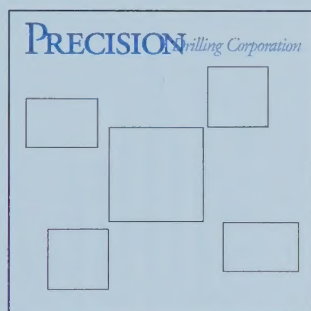
**Page 55**

Precision designs, engineers and builds purpose built rigs such as our "Super Single" drilling rigs to drill faster, safer and more effectively to 2,500 metres.

**Page 72**

Exhaust gas generation unit used as service gas supply for underbalanced drilling.

**MORE THAN  
MEETS THE EYE**



*Precision Drilling Corporation has assembled the pieces to create a major, multi-faceted, global oilfield service company. The Corporation has grown from a small Canadian oilfield drilling company into an integrated, high-tech performer on the international scene. With a series of specifically targeted acquisitions, an intensified research commitment and a vastly expanded drilling fleet, Precision is poised to meet customers' increasingly complex demands anywhere in the world. Backed by a proud and lengthy tradition of oilfield expertise and top performance, the Corporation now offers a technological spectrum of equipment and services proven in the rugged Canadian oilfield environment. As our annual report cover illustrates, today there is much more than meets the eye at Precision.*

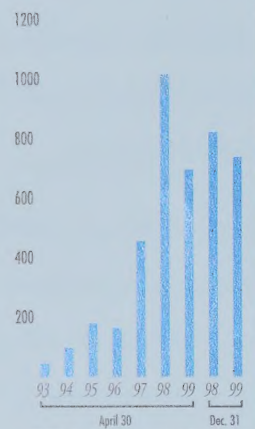
*Our cover picture (top left) depicts Precision as a leading provider of underbalanced drilling packages to offshore drilling platforms. Northland is the world leader in underbalanced drilling systems and services. It has projects in the North Sea, Middle East, Far East and North America. Underbalanced drilling techniques can dramatically reduce drilling time and improve productivity of oil and gas reservoirs.*

*In the centre picture, CEDA uses a highly pressurized stream of water to cut through metal in areas where there may be a high risk of an explosion using conventional methods. CEDA's mobile systems perform this cutting operation without generating heat. This also protects against metal fatigue. This process is ideal for cutting in refineries, petrochemical processing plants, pipelines and other potentially explosive atmospheres.*

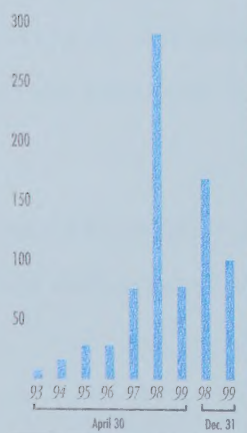
*On the bottom right, a highly trained operator is "rigging-up", ready to run one of Computalog's many state-of-the-art, downhole, wireline logging tools. Tools, such as the Multi-Sensor Caliper, shown in the other two frames, are run into cased wellbores to determine casing integrity.*

## SELECTED HIGHLIGHTS

**GROSS REVENUE**  
\$ Millions



**CASH FLOW**  
\$ Millions



## Financial Performance Summary

	Years ended December 31		
(Stated in thousands of dollars, except per share amounts)	1999	1998	% Change
	(audited)	(unaudited)	
Revenue	734,740	819,135	- 10
Operating earnings	117,494	180,486	- 35
Cash flow <sup>(1)</sup>	100,036	168,059	- 40
Per share	2.25	4.01	- 44
Earnings before goodwill amortization	50,081	92,030	- 46
Per share	1.13	2.20	- 49
Net earnings	34,250	78,415	- 56
Per share	0.77	1.87	- 59
Shareholders' equity	908,795	751,163	+ 21
Per share	20.42	17.93	+ 14
Net capital expenditures <sup>(2)</sup>	41,148	119,652	- 66
Long-term debt	226,815	280,651	- 19
Average number of shares outstanding (000's)	44,500	41,904	+ 6

(1) Funds provided by operations (2) Excludes acquisitions

## Disclosure Regarding Forward-Looking Statements

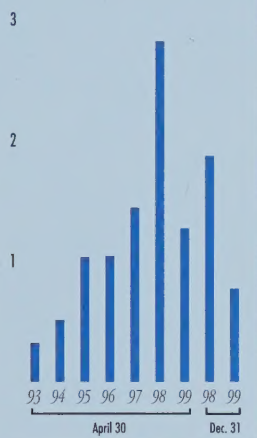
This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this report which address activities, events or developments which the Corporation expects or anticipates will or may occur in the future are forward-looking statements, including statements as to: future capital expenditures, including the amount and nature thereof; oil and gas prices and demand; expansion and other development trends of the oil and gas industry; business strategy; expansion and growth of the Corporation's business and operations, including the Corporation's market share and position in the domestic and international drilling markets; and other such matters.

These statements are based on certain assumptions and analyses made by the Corporation in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the Corporation's expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from the Corporation's expectations, including: fluctuations in the price and demand of oil and gas; fluctuations in the level of oil and gas exploration and development activities; fluctuations

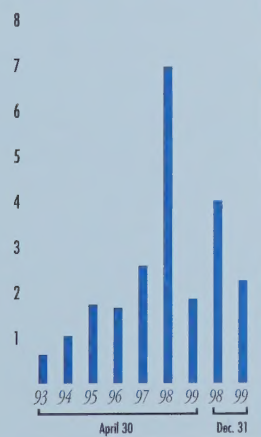


## SELECTED HIGHLIGHTS

**NET EARNINGS**  
Dollars per Share



**CASH FLOW PER SHARE**  
Dollars per Share



in the demand for well servicing, contract drilling and ancillary oilfield services; the existence of competitors, technological changes and developments in the oil and gas industry; the ability of oil and gas companies to raise capital; the effects of severe weather conditions on operations and facilities; the existence of operating risks inherent in the well servicing, contract drilling and ancillary oilfield services; political circumstances impeding the progress of work in any of the countries in which the Corporation does business; identifying and acquiring suitable acquisition targets on reasonable terms; general economic, market or business conditions; changes in laws or regulations, including environmental and currency regulations; and other unforeseen conditions which could impact on the use of services supplied by the Corporation.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Corporation will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Corporation or its business or operations. The Corporation assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

### Quarterly Results Summary *(Stated in thousands of dollars, except per share amounts)*

<i>(Year ended December 31)</i>	Q1	Q2	Q3	Q4	1999
Revenue	193,855	98,134	185,081	257,670	734,740
Operating earnings	41,259	4,766	25,802	45,667	117,494
Cash flow <sup>(1)</sup>	2,489	18,937	28,361	50,249	100,036
Per share	0.06	0.45	0.63	1.11	2.25
Earnings before goodwill amortization	12,779	5,454	11,797	20,051	50,081
Per share	0.30	0.13	0.26	0.44	1.13
Net earnings	9,057	1,849	7,643	15,701	34,250
Per share	0.21	0.05	0.17	0.34	0.77

<i>(Year ended December 31)</i>	Q1	Q2	Q3	Q4	1998
Revenue	302,763	161,214	180,285	174,873	819,135
Operating earnings	89,071	23,307	32,475	35,633	180,486
Cash flow <sup>(1)</sup>	99,690	24,203	25,324	18,842	168,059
Per share	2.39	0.58	0.60	0.44	4.01
Earnings before goodwill amortization	41,830	20,101	15,201	14,898	92,030
Per share	1.00	0.48	0.37	0.35	2.20
Net earnings	39,014	17,049	11,305	11,047	78,415
Per share	0.94	0.40	0.27	0.26	1.87

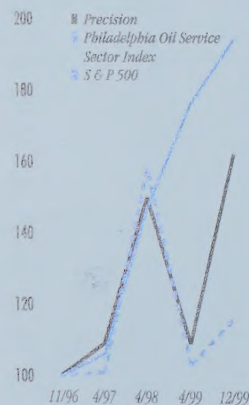
*(1) Funds provided by operations*

# SELECTED HIGHLIGHTS

SHARE PERFORMANCE – TSE  
Canadian Dollars



SHARE PERFORMANCE – NYSE  
US Dollars



## Share Trading Summary — The Toronto Stock Exchange

\$Cdn	High (\$)	Low (\$)	Close (\$)	Volume of shares	Value (\$)
<b>1999</b>					
March 31	21.50	13.25	19.50	13,718,204	234,035,097
June 30	30.75	18.45	28.00	14,673,427	384,072,934
September 30	40.60	27.05	34.00	14,029,216	487,923,911
December 31	39.45	28.25	37.00	8,875,591	294,174,872
	40.60	13.25	37.00	51,296,438	1,400,206,814

## 1998

March 31	35.00	23.00	29.95	18,099,590	479,587,806
June 30	36.75	25.00	28.95	9,180,119	290,688,685
September 30	28.95	15.30	19.05	12,217,022	252,332,294
December 31	22.50	16.00	17.45	8,834,917	165,961,021
	36.75	15.30	17.45	48,331,648	1,188,569,806

## Share Trading Summary — The New York Stock Exchange

\$US	High (\$)	Low (\$)	Close (\$)	Volume of shares	Value (\$)
<b>1999</b>					
March 31	14.00	8.81	13.00	4,453,900	50,536,487
June 30	21.13	12.31	19.06	7,252,400	126,663,654
September 30	27.75	18.38	23.19	9,008,500	212,591,281
December 31	26.94	19.13	25.69	9,422,900	212,297,850
	27.75	8.81	25.69	30,137,700	602,089,272

## 1998

March 31	24.50	16.00	21.13	14,959,800	276,125,045
June 30	25.75	16.94	19.63	7,064,100	156,522,625
September 30	19.75	10.00	12.56	8,674,000	119,097,016
December 31	14.69	10.25	11.31	4,212,600	51,400,177
	25.75	10.00	11.31	34,910,500	603,144,863



# PRECISION

*Drilling Corporation*

more than ...

just brute steel.

With leading edge technology, we have the tools to compete as a fully integrated oilfield services group.

What we think **1999**



## REPORT TO SHAREHOLDERS

As I sit back and reflect on this past year, I marvel at the resilience of the oil and gas industry and the people who work in it. North America has just experienced the most dramatic crash and recovery in oil related commodity prices since the Corporation went public in 1985, and all in a period of approximately eighteen months.

Only twelve months ago West Texas Intermediate (WTI) was at US\$12 per barrel and observers were predicting the final demise of oil and OPEC in particular. Now as we close out the twentieth century, WTI is hovering near US\$26 and OPEC is once again demonstrating its strength and ability to capture the attention of all the world's economies.

The oil and gas service industry is also alive and some companies, like Precision Drilling Corporation, are healthy and free of the restraints that had been placed on them during the past eighteen months. We are in a unique position to take advantage of the rationalization that the industry has experienced, as all of our divisions are leaner and more efficient than at any other time in our history.

### The Results

The Corporation decided early in 1999 to change its accounting year end from its original April 30 to December 31 to enable shareholders and analysts to more easily compare our results with our peers, particularly those south of the border. We believe the comparison will not reflect badly upon us. Although not required, we have chosen to present our results for a twelve month calendar period in 1999 as well as the obligatory disclosure of the eight month stub period to December 31, 1999 (see Consolidated Financial Statements), again to facilitate comparisons. The following summary financial information is provided to demonstrate the dramatic turnaround we have experienced this year.

### Summary Financial Information

	Two Months		Twelve Months	
	Ended December 31		Ended December 31	
	1999	1998	1999	1998
	Unaudited	Unaudited	Audited	Unaudited
<i>(Stated in thousands, except drilling days and per share amounts)</i>				
Number of drilling operating days	7,223	4,778	29,084	32,894
% Change	+51%		-12%	
Revenue	\$ 179,935	\$ 120,418	\$ 734,740	\$ 819,135
% Change	+49%		-10%	
Net earnings	\$ 10,956	\$ 8,296	\$ 34,250	\$ 78,415
% Change	+32%		-56%	
Net earnings per share	\$ 0.24	\$ 0.19	\$ 0.77	\$ 1.87
% Change	+26%		-59%	



**REPORT TO  
SHAREHOLDERS**

The revenue in calendar 1999 declined 10% to \$735 million as drilling days fell 12% to 29,084. In the final two months of 1999 we can happily report that the Corporation rebounded with a 49% surge in revenue to \$180 million, following a 51% increase in drilling days, over the same period in 1998. Net earnings followed suit with a 32% increase to \$11 million in the last two months, representing 32% of the entire twelve month result of \$34 million.

**More Than Meets the Eye**

However these numbers fail to tell the whole story. In 1999 Precision changed dramatically. Our industrial rentals company, Certified Rentals, was sold for a premium over cost. Then, just before the industry began to recover, the Corporation entered a new and more technically demanding market place with the acquisition of Computalog Ltd. While the sale of Certified removed a steady source of non-oil dependent cash flow, the acquisition of Computalog added to the Corporation's oil and gas service industry leadership in Canada and gained it instant access to the high-tech world of wireline logging, directional drilling, Logging While Drilling (LWD) and Measurement While Drilling (MWD) technologies. This was just the latest step in the transformation of Precision from simply a western Canadian drilling company into an international, vertically integrated oilfield services group.

**Step One - Broaden the Base**

Precision started in 1985 with three drilling rigs and expanded to 19 rigs in 1987 while working solely in Alberta. By 1996 Precision had grown to 84 rigs and started the first phase of its transformation by broadening its base of operations through the acquisition of EnServ. This first step added our rental and production group as well as adding service rigs and snubbing units.

The rental group consisting of Smoky and Ducharme (the latter acquired in 1997) have added a strong source of cash flow while also broadening our oilfield presence. This group, operating under the umbrella of Montero Oilfield Services Ltd., returned a solid performance in 1999, and is now enjoying a significant strengthening as the well count in Canada starts to climb.

Energy Industries, which packages and rents or sells gas compression units, had a great year as it benefited from the huge swing towards drilling for natural gas, building a backlog of orders to \$30 million at year end. Although increased competition has begun to squeeze margins, we nevertheless expect another busy year for the compression business as demand for natural gas continues unabated.



**REPORT TO  
SHAREHOLDERS**

CEDA, the market leader in industrial maintenance and plant turnarounds, continued its steady growth while providing a counter-cyclical offset to the seasonality associated with drilling in western Canada. CEDA, more than any other of Precision's businesses, is well positioned to benefit from the increased investment in the oilsands area surrounding Fort McMurray, Alberta.

**Step Two - Increase the Depth**

In 1997 and 1998, we increased the depth of the Corporation by adding 130 drilling rigs to the fleet through a series of acquisitions forming a strong backbone to support the Corporation's growth. In 1999, drilling days declined from the previous year yet the domestic contract drilling group adjusted well to the demands of the commodity price roller coaster and still managed to generate free cash flow of \$70.6 million. Precision operated 222 rigs in western Canada and internationally.

For the coming year we can see great opportunities within the shallow through deep gas areas. Drilling for gas this summer could be the busiest we have ever seen. Canada is now over-piped but has a large neighbour to the south with an ever-increasing appetite for gas. Although demand for gas in North America remains high, the gas wells being drilled produce fewer and fewer reserves, requiring more and more gas wells to be drilled.

In heavy oil, Precision's traditional strength, the outlook is also positive. Our Super Single drilling rigs, with their unique slant drilling capabilities, are in huge demand. In the now economically attractive oilsands areas, we believe we have some innovative techniques that can aid the production of oil by drilling horizontal wells as an alternative to open pit mining.

**Step Three - Expand Internationally**

Last year, while most service companies were focused on dealing with cost cutting and retrenchment, Precision was turning its attention to further developing its presence in the international drilling arena. We can now boast a fleet of 11 rigs in the international market place, seven in Venezuela, two in Argentina and one each in Oman and Brazil. At the time of writing, all 11 rigs had active contracts. Few other international drilling companies can likely make this claim.



**REPORT TO  
SHAREHOLDERS**

Precision continues to bid on land drilling tenders in South America, the Middle East and the former Soviet Union. We are pleased to report that we have just been awarded a large contract in Buzachi, Kazakhstan with a US multinational oil company. While we will never overlook the massive contribution that the domestic fleet provides to the organization, Precision is strategically enhancing its presence overseas, utilizing its technical know-how and expertise gleaned from its market leadership position in Canada.

**Step Four - Embrace Technology**

With two major acquisitions (Northland and Inter-Tech) in 1998, Precision began to embrace a greater technological focus. By acquiring Northland and Inter-Tech, Precision gained immediate worldwide leadership in the development of underbalanced drilling techniques, a process that minimizes damage to the formation as it is being drilled by reducing the weight of drilling fluids, yet still safely controlling the well. In July 1999, the Corporation acquired the shares of Underbalanced Drilling Services Ltd., which had developed patented technology for the generation of service gas for use in conjunction with underbalanced drilling projects. Although much smaller than the others, this acquisition complemented our underbalanced drilling (UBD) group and now enables us to provide a fully integrated underbalanced drilling product to our customers under the brand name "Northland".

The 1999 year however, was tough for Northland as it, more than any division, had to deal head on with the collapse of international exploration and production investment. Northland has made huge strides to establish itself as a cost conscious, quality service provider. Northland was honoured to be awarded a second underbalanced drilling package to work for Shell in the North Sea and a further contract with YPF Maxus offshore in Indonesia. The addition of the service gas division has brought with it some challenges, as we were forced to complement a process that was a major technical advancement with sound operating experience and procedures. Again, through the dedication of our first class operations group, this process is largely completed.

Finally in July 1999, Precision elevated itself to yet another technological plane with the acquisition of Computalog Ltd. Computalog has long enjoyed a reputation in Canada for quality service in Cased Hole and Open Hole Wireline Logging. In addition, it is one of the leaders in Canada in the provision of directional drilling, MWD and LWD services, through United GeoCom Drilling Services, a joint venture with Geoservices of France. However, as a small public company with limited financial resources, it had tended to lag its bigger competitors in the development of new proprietary technology.



**REPORT TO  
SHAREHOLDERS**

While Precision has the financial strength to fund this development, we also needed to add to the management depth of that company. As a result, Larry Comeau joined us to provide leadership to the new acquisition and to develop a strategy for us to elevate Computalog as a world class wireline, LWD and MWD provider. In addition, we moved quickly to assemble a talented group of scientists in Houston that will focus on upgrading Computalog's existing technology and provide it with a truly competitive edge in Canada, the US and overseas.

**The Future**

As we turn our attention to the future, it is clear that the Corporation has come a long way. However, the journey is just beginning. We are in the midst of a transformation that will take us from being a small Alberta drilling company, and convert us into a true multi-faceted oilfield services group able to operate anywhere in the world. *Technology* and *international* are words that can now be easily associated with Precision Drilling Corporation. We have significant earning power within the contract drilling group that can now be focused on growing the technology side of our business and that will enable us to compete as a viable, high-tech alternative to the large US based companies that have dominated the oilfield service business on a worldwide scale. We look forward to adding Precision Drilling Corporation's name to that short list of world class oil and gas service companies.

**Hank B. Swartout**

Chairman of the Board,  
President and Chief Executive Officer

March 21, 2000





# PRECISION

*Drilling Corporation*

more than

just brute steel.

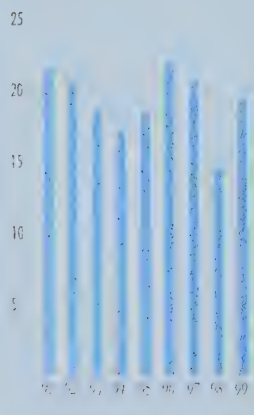
With leading edge technology, we have the tools to compete as a fully integrated oilfield services group.

What and how we're doing **1999**

## REVIEW OF OPERATIONS

### CRUDE OIL PRICES

WTI Calendar year average  
US \$/Bbl



## State of the Industry

As Precision Drilling Corporation turns its eyes toward global expansion and technology, domestic Canadian assets provide the critical mass with which to underwrite our business strategy. As we continue to transform the Corporation, we know that the industry and segments we operate within will continue to change as well. Macroeconomics associated with oil and natural gas supply and demand are the prime drivers for pricing and profitability within the oilfield service industry.

Industry conditions in Canada, while a subsection of the North American and global market place, provide a special window into the oil and gas industry. The Western Canadian Sedimentary Basin (WCSB) yields conventional light, heavy and synthetic crude oil along with natural gas in predominantly shallow and deep formations. Within a business climate that can experience volatile commodity prices, the WCSB is a vast and dynamic hydrocarbon basin in a region characterized by cold winters, varied topography and geology, and responsible government regulation. These winning conditions make western Canada an excellent proving ground for oilfield service providers and their technology.

In Canada, Precision's oilfield service segments work within a highly developed and mature industry. With significant market presence in Contract Drilling, Oilfield Specialty and Rental and Production Services, our core businesses provide integrated oilfield services that enable our customers to explore and develop oil and gas reserves. Precision has accumulated knowledge and experience in one of the world's most prolific and demanding hydrocarbon basins, the WCSB. Elevated by our past and confident in our skill set, Precision is poised to benefit and be challenged by continual transformation underway within our industry. Government initiatives to deregulate the natural gas industry and to remove artificial petroleum incentives have fostered a market driven economic base. Investment capital is available purely on business fundamentals; opportunity prevails.

Noteworthy issues and developments in Canada with underlying global significance include the following:

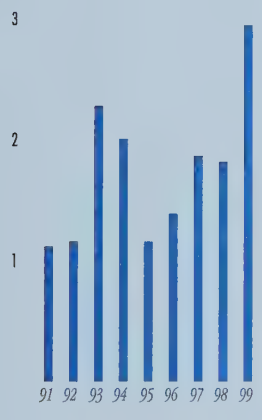
- ✦ Partnering with regulatory bodies such as Alberta's Environment and Utility Board and Workers' Compensation Board has raised industry standards and led to better long-term business decisions. Precision's resources, people and equipment, strive to be 'best in class.'
- ✦ The WCSB is a mature basin for conventional oil. Low cost service and technological innovation are necessary to sustain and exploit new production.



## REVIEW OF OPERATIONS

### NATURAL GAS PRICES

AECCO-C Calendar year average  
Cdn. \$/MmBtu



- Natural gas demand is growing with excess capacity for export a reality. The rate of gas well depletion is increasing. Industry needs to drill for natural gas as never before. The demand for natural gas as an environmentally friendly fuel will increase with nuclear plant shutdowns and gas-fuelled electrical co-generation for growing industrial, e-commerce and residential markets.
- Environmental issues, such as green house gas emissions, will take centre stage. Heightened global consciousness will influence consumer and business decision making. Investment will be made — consumers, industries, and companies must do their part.
- Heavy oil reserves are plentiful. Drilling will be required, as will technology and acceptable price differentials to conventional crude.

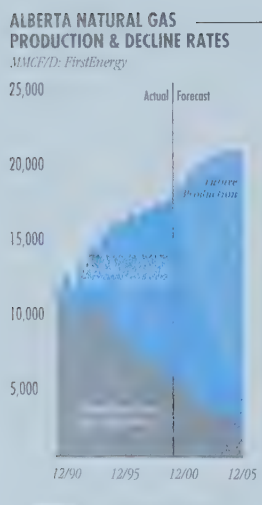
Precision's oilfield services are customized to benefit from promising niche markets. These include areas such as shallow gas, heavy oil and deep foothills drilling. Technological innovation associated with MWD and LWD will enable better management of downhole properties and will deliver the drill bit to the target zone with more accurate interpretation of drilling results. As well, UBD techniques will improve the productivity of many existing reservoirs. The push to explore and develop in more remote areas will promote greater use of camp and catering services. Increased natural gas production from these remote locations will require higher capacity pipeline compressor systems and more of them. Industrial maintenance and turnaround services will be in greater demand with oilsand plant expansion in northeast Alberta.

While Precision is vertically integrated within the oilfield service sector, drilling rig activity is a leading indicator of industry health as it occurs early in the exploration and production (E & P) process and traditionally accounts for approximately 50% of total E & P spending. The need to drill is primarily caused by depletion rates within producing oil and gas wells.

Statistical averages, such as the following, bring into perspective the prospects for increased drilling and support services: (Source: Simmons & Co.)

- Natural gas decline rates are already steep and rising:
  - offshore shelf, Gulf of Mexico — 40% to 50% in the first year of production;
  - western Canada — 25% to 30% in the first year of production.
- World oil production is characterized as follows:
  - 70% is from fields that are over 30 years old;
  - 30% is from fields brought on stream post 1969.

## REVIEW OF OPERATIONS



In response to depleting reserves, exploration and development activity will gradually shift to more remote drilling locations. Specialized oilfield technology and deep drilling equipment for land and offshore use will be in high demand in order to meet North American natural gas requirements. The Yukon, Northwest Territories (NWT) and the Rocky Mountain foothills are being rediscovered. Over the past twenty years only 80 wells in the Yukon and 1,350 in the NWT have been drilled.

Conventional crude oil will be characterized by exploitation drilling and new exploratory and development drilling in central and northern regions. In comparison to the number of wells drilled in some prolific land basins in the southern US, opportunity for further infill conventional oil drilling in Canada continues to exist.

The prospects for natural gas drilling are fundamentally very strong. The trend over the past 10 years is clear. Canadian gas exports to the US have increased more than threefold and the number of natural gas wells required to maintain and grow production is increasing. In addition, with new pipeline infrastructure such as Alliance and Northern Border, western Canadian gas producers have tremendous opportunity to access new US markets.

During 1999, natural gas demonstrated price stability and strength as the AECO-C price averaged \$2.79 per gigajoule, an increase of 40% over 1998's \$1.99. With pipeline expansion to the US mid-west markets, western Canadian natural gas producers have finally narrowed price differentials with their US counterparts. For the third year in succession, NYMEX versus AECO differentials have been lowered.

In 1999 a record number of 6,309 natural gas wells were drilled, an increase of 17% over the previous record of 5,370 wells in 1994. Conversely, oil wells, despite a fourth quarter surge of activity, are reported at 2,730, significantly below the 8,558 wells drilled in the record setting year of 1997.

While commodity pricing has improved for both natural gas and oil, each market is separate and distinct. Oil is a global commodity with a vast distribution network. OPEC has significant influence on oil supply and price. Natural gas is inherently different. In its gaseous state, it can only be transported by pipeline, therefore, its marketability is dependent on pipeline infrastructure. Price is subject to regional supply and demand factors. As pipeline networks expand, suppliers have greater access to markets.



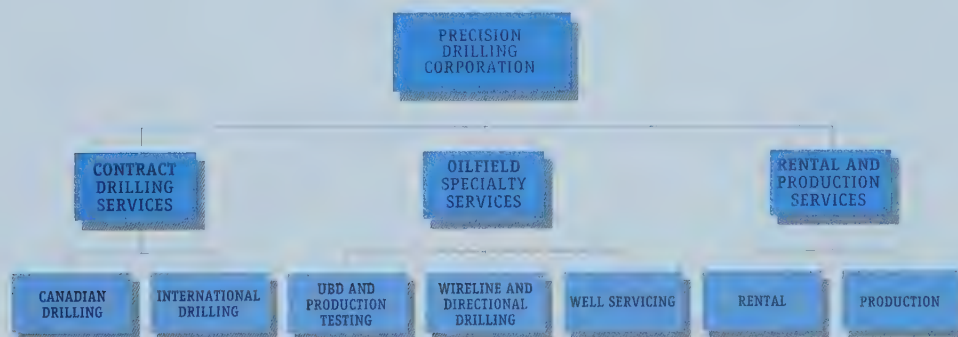
## REVIEW OF OPERATIONS

In Canada, Precision's equipment utilization varies with cash flow generated by our customers through oil and gas production. Oil drilling in 1996 and 1997 boomed on the strength of heavy oil drilling activity. In response, the drilling industry built an additional 150 double drilling rigs to meet demand. However, with collapsed oil prices and unacceptable heavy oil differentials to conventional crude through much of 1998, the drilling industry experienced a significant decline in rig use. Heavy oil is a tremendous resource to Canada. It offers security of supply and it will be drilled and produced as technology and process improvements continue to lower production costs.

During 1999, each Precision segment felt the effects of a difficult business climate forged by low oil prices. Customer demand for services was low and we continued to tightly control discretionary spending. Employment levels in the field were dramatically cut after four very solid and robust years from 1994 through 1997. After bottoming in February 1999 at below US\$12 WTI a barrel, oil prices staged a steady climb in the second quarter, and strengthened further to average US\$19 and exit the year at US\$26. OPEC supply tightening reduced production levels below daily demand and excess world inventory supply has been significantly drawn down. The dramatic turnaround has provided our customers with an enormous boost to cash flow. This in turn, after a six-month hesitation, resulted in rising demand for our services as the oil and gas industry returns to the drill bit to replace and increase production.

### Review of Operations

The Corporation operates in three business segments; Contract Drilling Services, Oilfield Speciality Services and Rental and Production Services.



## REVIEW OF OPERATIONS

### REVENUE

12 months ended December 1999  
Total: \$734.7 MM



Contract Drilling 53%  
Oilfield Specialty 23%  
Rental & Production 24%

### REVENUE

12 months ended December 1998  
Total: \$819.1 MM



Contract Drilling 57%  
Oilfield Specialty 10%  
Rental & Production 33%

Precision Drilling Corporation is a complex network of various business lines, many of them dependent on sophisticated technology operated by highly trained employees and offered on an integrated or stand alone basis.

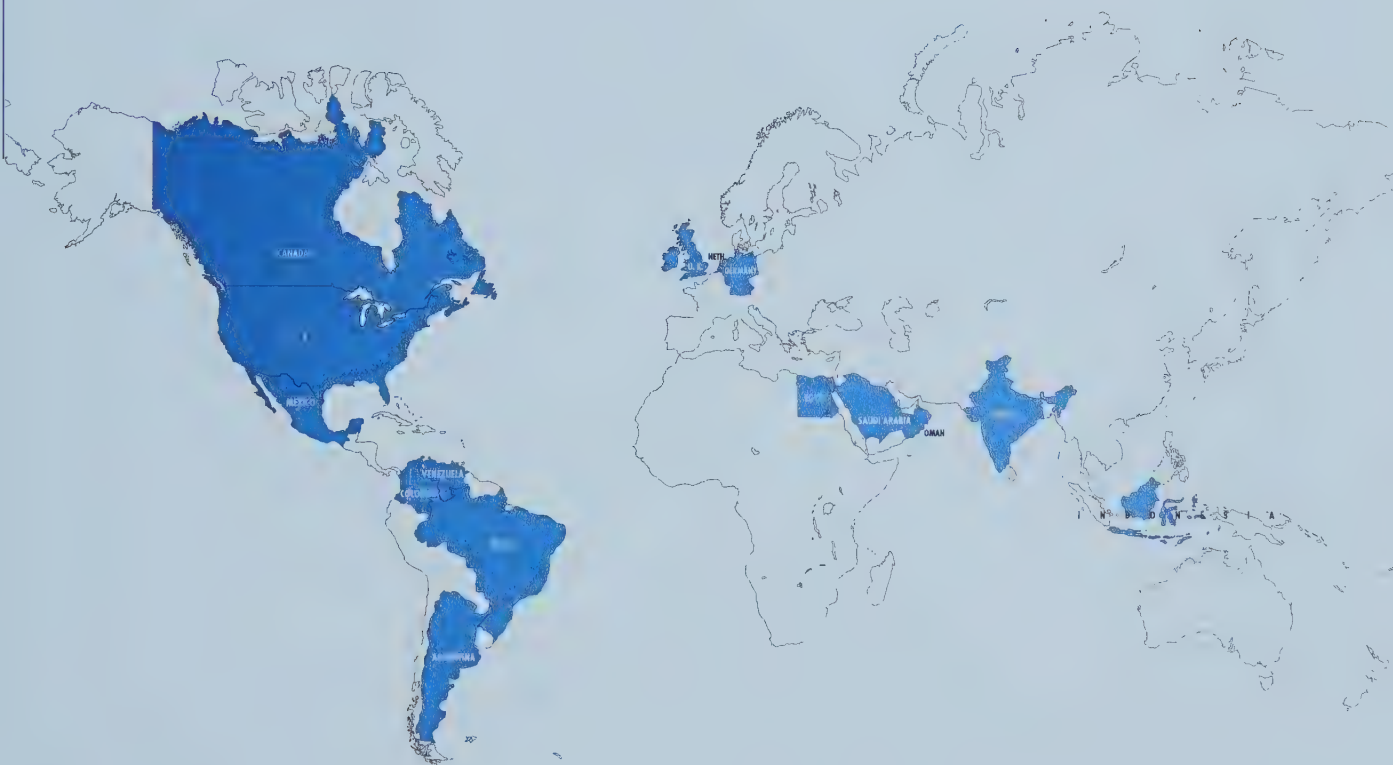
**There is much more to Precision than meets the eye.**

Division	Nature of Business	Units of Production	Location	Employees
<b><i>Contract Drilling Services</i></b>				
<b>PDLP</b>	Contract drilling	211 drilling rigs, 37% of industry	WCSB	3,459
<b>LRG</b>	Camp and catering	75 oilfield camps	WCSB	261
<b>Rostel</b>	Manufacture, repair and sale of drilling equipment	Yard and shop facility, 41,000 square feet.	Calgary	69
<b>Columbia</b>	Procurement and distribution of oilfield supplies	Warehouse and distribution facility	Edmonton	33
<b>PDI</b>	Contract drilling	11 drilling rigs	International	350
<b><i>Oilfield Specialty Services</i></b>				
<b>Computalog</b>	Open and cased hole wireline services, directional drilling services	31 open hole units, 124 cased hole units, 14 slickline, 55 drilling systems	WCSB, US, South America, India	1,040
<b>Northland</b>	Well testing and underbalanced drilling services	45 testing systems, 38 RBOP™, 20 UBD systems	WCSB, Eastern & Western Hemispheres	330
<b>Live</b>	Hydraulic well assist snubbing	20 snubbing units, 40% of industry	WCSB	62
<b>Drive</b>	Contract service rigs	76 service rigs, 9% of the industry	WCSB	480
<b><i>Rental and Production Services</i></b>				
<b>Montero</b>	Wellsite trailers, downhole drilling equipment, surface oilfield equipment	300 trailers, 9,500 Jts. of specialty drill stem, 4,000 tools, 3,500 surface units	WCSB	140
<b>EI</b>	Packaging, sales, lease, rental, and servicing of natural gas compression equipment	95,000 square feet of production capacity	WCSB, International, excluding the US	250
<b>CEDA</b>	Industrial maintenance and turnaround services	Canada — 5 operating centres, 9 dealerships, US — 10 operating centres	Canada, US	750

December 31, 1999

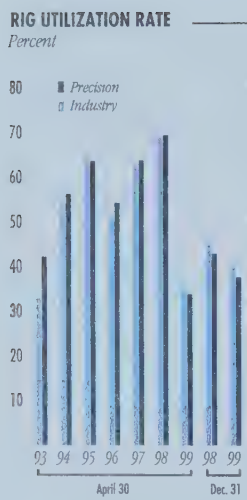
7,224



**REVIEW OF  
OPERATIONS****Precision's Operations in 1999**

*We have begun to establish ourselves as a global provider of oilfield service expertise in each of our three business segments. The map indicates countries in which Precision provided services in 1999.*

## REVIEW OF OPERATIONS



## Contract Drilling Services

### Canadian Contract Drilling

Precision's Canadian contract drilling segment continued to lead oilfield service activity in western Canada throughout 1999. Canadian contract drilling is comprised of four divisions; Precision Drilling Limited Partnership (PDLP), LRG Catering Ltd. (LRG), Rostel Industries Ltd. (Rostel) and Columbia Oilfield Supply Ltd. (Columbia). While each business entity is specialized and unique, the primary focus is on the drilling rig operating for the benefit of the oil and gas customer. Canadian contract drilling, with the breadth and depth of its operating divisions, ensures that Precision's customers are given high quality, standardized service at all well locations. In drilling terms, Precision can efficiently rig-up, drill, tear-out and move a drilling rig. Purpose built equipment is designed to meet the challenges of drilling and is regularly maintained to reduce field down time. Precision's advantage is its ability to operate an integrated group that runs 24 hours a day, 365 days a year, with mobile equipment in remote locations, fulfilling customized client requirements.

### Drilling Performance Summary

Years ended December	1999			1998			% Change	
	Precision	Industry	Market Share %	Precision	Industry	Market Share %	Precision	Industry
Number of drilling rigs	211	577*	37	214	563*	38	- 1	+ 2
Number of operating days (spud to release)	29,084	81,748	36	32,894	89,401	37	- 12	- 9
Wells drilled	3,803	11,816	32	3,273	9,740	34	+ 16	+ 21
Metres drilled (000's)	4,613	13,018	35	4,457	12,165	37	+ 4	+ 7
Rig utilization rate	37%	40%		43%	45%			

\* excludes coiled tubing and non CAODC rigs

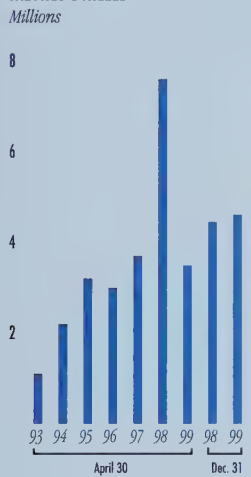
### Precision Drilling Limited Partnership

Through all seasons and economic cycles, our oil and gas customers look to Precision to provide safe, reliable and experienced contract drilling service. As the largest drilling rig contractor in Canada, PDLP operated 211 land drilling rigs in the WCSB.



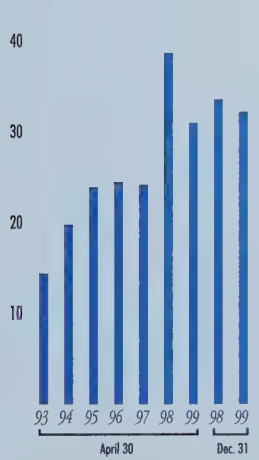
## REVIEW OF OPERATIONS

### METRES DRILLED



### MARKET SHARE

Wells Drilled — Percent



Within contract drilling, we have always focused on partnering with the customer in an effort to provide innovative solutions. This delivers lowest absolute cost in combination with optimal well production potential. As our industry matures, competitive pressures guide Precision to continually improve equipment, drilling procedures and employees' skills. We are able to service all market segments with our large and versatile fleet of rigs. PDLP led the industry in 1999 with 3,803 wells and 4,612,779 metres of hole drilled; the distance equivalent to driving from New York to Los Angeles.

PDLP's drilling rig fleet decreased by three during the year with two rigs being deployed to Venezuela and a third retired in December. By depth, rating and derrick size, our rig fleet compares to industry as follows: (*Source: CAODC — includes coiled tubing and estimate of non CAODC member rigs*)

Derrick	Depth	PDLP		Industry		PDLP Market Share %
		# of rigs	% of fleet	# of rigs	% of fleet	
Super singles	to 2,500 m.	13	6	16	3	81
Singles	to 1,200 m.	15	7	92	15	16
Doubles	to 2,500 m.	96	46	284	48	34
Light triples	to 3,600 m.	49	23	131	22	37
Heavy triples	to 7,600 m.	38	18	72	12	53
Total fleet		211	100	595	100	35

The dramatic improvement in commodity pricing for oil and natural gas will fuel higher demand for our services in all rig depth categories. After three sluggish quarters in calendar 1999, the fourth quarter's drilling utilization at 10,320 drilling days and 53% utilization, confirms that our recovery is underway. PDLP exited 1999 with fourth quarter rig utilization that is 21 percentage points or 65% higher than fourth quarter 1998. It also enabled PDLP to have average rig utilization of 37% for 1999, 6 percentage points or 14% less than 1998.

Rig activity bottomed out at 10% utilization for the month of May 1999 but steadily increased from that point through to December 1999. There was some concern over skilled manpower availability as PDLP ramped up from 25 rigs operating to 182 in eight months. The significant 1997-1998 organizational change and new information systems along with a determined group of employees smoothed the company's successful gear-up to full capacity.

## REVIEW OF OPERATIONS

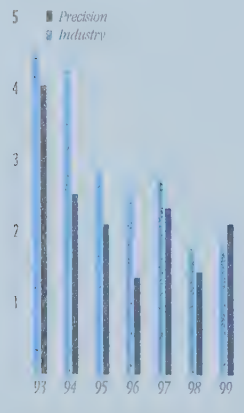
### MEDICAL AID FREQUENCY

Accidents per 200,000  
man hours worked



### LOST TIME ACCIDENTS

Compensable accidents per  
200,000 man hours worked



A key measure of performance is safety and in 1999 we demonstrated our commitment to eliminate employee injuries:

- 817 prospective rig employees participated in PDLP's 2.5 day in-house Orientation Training Program, the only program of its kind in the industry; approximately 50% of those were hired;
- A 5% reduction in recorded incidents requiring any medical aid;
- Our Workers Compensation Board of Alberta experience rating was 17.5% better than industry;
- Successfully met our 1999 target for the Alberta Partners in Injury Reduction Program;
- Our safety department made 449 rig site visits;
- 177 drilling rigs, 84 % of our fleet, operated free of any lost time.

In terms of the coming year's financial commitment, the drilling operations will focus capital expenditure based on equipment utilization and tangible economic returns. Given the increasing demand for our Super Single rigs, at least one new rig construction is planned for 2000. Capital will be allocated to Rostel to enhance plant capacity and productivity in the manufacture and refurbishment of drilling equipment. Columbia is a vital link for our drilling operations as it provides a centralized procurement system. With a fully integrated planning system, we look for procurement cost savings and business processes that are simple and timely.

Over the past six months, PDLP's engineering group has studied developments in coiled tubing technology and the potential it has in the shallow drilling market. Considerable focus is being invested in the development and construction of Precision's advanced coiled tubing rig. A coiled tubing unit consists of a continuous string of flexible steel pipe (tubing) coiled around a reel together with an injector and blowout preventer system. The drill bit and mud motor are attached to the tubing to complete the drilling package.

### Contract Drilling Support

**Columbia** became a wholly owned subsidiary of Precision in 1997. It was founded in 1977 as a general oilfield supply store with drilling contractors as its main customers. Restructured to be fully integrated with the specific needs of Precision business units, Columbia procures, packages and distributes large volumes of operational supplies. Operating from a central warehouse facility, Columbia enables Precision to optimize its collective purchasing power. By standardizing product selection, quality and reliability are enhanced. Through centralized purchasing and information systems upgrades, Columbia is being positioned to exploit technology to facilitate value based decision making and to simplify business processes.



## REVIEW OF OPERATIONS

**LRG** is a camp and catering company providing food and accommodation to the Canadian oil and gas drilling industry. Established in 1976, LRG has grown significantly over the past five years and now operates 75 quality camp facilities, the second largest provider in Canada. A typical LRG camp is a five-unit structure strategically located near a remote drilling operation. An oilfield camp facility has evolved to be mobile, operational within hours of arrival, comfortable and fully equipped to lodge 20 people, with catering service to accommodate up to 80 individuals daily.

**Rostel** uniquely positions the Corporation as the only Canadian drilling contractor with in-house rig building capability. Established in 1976 as a machining and fabricating shop, it was acquired by Precision in 1996. Manufacturing of custom drilling and service rig components is its core business. In addition to quality repair and construction service, Rostel can sustain high plant utilization providing specialized services that include drilling equipment inspection and certification.

### International Drilling

Precision Drilling International's (**PDI**) strategy is to expand into selected global markets enabling the company to capitalize on its domestic strengths while meeting specific growth goals. A new drilling contract for one rig in Buzachi, Kazakhstan was awarded to the Company subsequent to year end, to begin in late 2000. In addition, PDI has commenced business development activities in the Middle East where western oil companies are participating in a buy-back program of existing oilfields. The company feels there is significant operating potential in markets where there is strong demand for western technology to improve oil production.

In 1999, PDI had a great year with revenues exceeding \$40 million. At year end we had a total of nine rigs in four countries with a further two under construction for contracts commencing in the first quarter of 2000.

- ✦ In Venezuela, our drilling operations achieved excellent results, adding an enhanced Super Single rig to its 4-rig fleet. The newly upgraded rig PD SL735 is equipped to drill to a measured depth of 2,400 metres and has already exceeded customer requirements for drilling specialized infill horizontal wells. Additionally, we were awarded contracts by Petrozuata to deliver two triple electric top-drive rigs 736 and 737 in early 2000. Our ability to design, build and deliver high performance equipment and services was critical in winning this 2-rig tender. Performance records were set with Rigs 733 and 734, which have cut drilling times for Lasmo now averaging 6 to 7 days per well, down from the budgeted 20.
- ✦ In Argentina, operations were slow until the last quarter when Rig 39 was awarded a three well program with Tecpetrol. The outlook for 2000 is vastly improved with both Rig 38 and Rig 39 now contracted.

## REVIEW OF OPERATIONS

- ✦ In Brazil, rig 742 was fully utilized throughout 1999 and continues with a further 18 months on its extended contract.
- ✦ In Oman, the operator terminated Rig 40's contract five months prior to the end of its term due to fiscal cutbacks. Nevertheless, by year-end, the rig had been awarded a 10-month contract commencing in February 2000 with the same operator.
- ✦ In 1999 we tendered a multi-rig, multi-year package to a western consortium of oil companies located in the Aksai gas condensate region of northwest Kazakhstan. At the time of writing, this contract award was still pending.

With a strong operating base established in Venezuela, PDI is growing in worldwide recognition. Drawing on the strength of its experienced personnel and the superlative performance of its drilling rig crews, PDI expects to play a larger role in the international drilling market in 2000.

### Oilfield Specialty Services

#### Computalog Ltd.

Precision Drilling Corporation acquired Computalog Ltd. (**Computalog**) in July 1999 having recognized the company's core strengths of top quality service delivery, highly motivated employees and an ability to effectively compete in the drilling services and wireline logging industry.

Computalog provides electric wireline logging and directional drilling services to exploration and production companies. The company manufactures almost all of its tools as well as selling some to third parties. Wireline services are offered from 11 locations in Canada, 15 in the US, two in Venezuela, one in Argentina and one in Germany. Directional drilling services are offered from three locations in Canada, four in the US and one in India. Wireline tools are primarily manufactured in Fort Worth, Texas while directional drilling equipment is engineered and assembled in Edmonton, Alberta. Computalog also has research and development facilities in Fort Worth and Houston, Texas.

Once a hole is drilled, wireline or "logging" services are used to measure the physical properties of underground formations to help determine the location and quantity of oil and gas in a reservoir. Computalog's wireline business is divided into two categories: open hole services and cased hole services. Open hole logging assists in locating the oil and gas by measuring certain characteristics of the geological formation and providing permanent records called "logs". Cased hole logging is performed at various times throughout the life of the well and includes perforating, completion logging and production logging.



## REVIEW OF OPERATIONS

Wireline services are provided from surface units which lower tools and sensors into the wellbore on a conductor wireline. As the wireline pulls the tools through the wellbore, log measurements are gathered and relayed to a computerized surface data acquisition and processing system. These state-of-the-art systems are an integral component of each wireline unit. Computalog can relay this information in real time via a secure satellite transmission network and secure internet connection to the client's office for faster evaluation and decision making to reduce their costs.

### *Open Hole Services*

Open hole logging is performed after a well is drilled. This provides an invaluable benchmark that future well procedures may be referenced to. The open hole sensors and tools are used to determine well lithology and the presence of hydrocarbons. Formation characteristics such as resistivity, density and porosity are accurately measured using sophisticated electronic and mechanical technologies. This data is then used to characterize the reservoir and describe it in terms of porosity, oil, gas, or water content and an estimation of productivity. This information can further be refined at a later time in one of the company's log interpretation centres.

Most of Computalog's tools and sensors are proprietary. They are deployed from its Canadian and international bases by a fleet of 31 specialized open hole trucks and skid units.

### *Cased Hole Services*

After the wellbore is cased and cemented, the cased hole division can be used to perform a number of different services. Perforating the casing allows oil and gas to flow to the surface. Production logging may be performed throughout the life of the well to measure temperature, fluid type, flow rate, pressure and other reservoir characteristics. This helps the operator analyze and monitor well performance and determine when a well will need a workover or further stimulation. In addition, cased hole services may involve wellbore remediation which could include the positioning and installation of various plugs and packers to maintain production or repair well problems.

Computalog has a total of 124 cased hole and 14 slickline truck or skid mounted units. Of these, 58 cased hole and six slickline units are based in Canada, 58 cased hole units are deployed in the US and eight cased hole and eight slickline units operate in South America, through a joint venture.

## REVIEW OF OPERATIONS

### *Drilling Services*

Drilling services assist the client in the controlled drilling of a wellbore to a predetermined target location. The company can supply specialized equipment including MWD and Computalog Commander™ Drilling Motor systems along with experienced personnel for directional, horizontal, and underbalanced drilling operations. Services are available for directional control, slant well drilling, single and multi-lateral horizontal wells, underbalanced drilling, conduit hole and trenchless conduit drilling, and other directional drilling applications. Directional drilling typically requires a downhole drilling motor that is hydraulically powered by the drilling mud. This motor then rotates the drill bit without relying on the rotation of the drill pipe to drill ahead. In addition, MWD systems connected behind the mud motors relay continuous real time information to the surface to monitor the trajectory of the well being drilled. Using this information, the operator steers the drill bit to the prescribed target location. Unlike previous technologies, MWD does not require the drill string to be tripped out so that the well trajectory can be surveyed, and then tripped in to continue drilling, thus saving valuable time and improving accuracy.

In 1997 Computalog and Geoservices of France formed two unique joint ventures in Canada and the US operating as United GeoCom Drilling Services. These joint ventures enabled Geoservices' leading edge electromagnetic MWD technology to be marketed in Canada and the US in an integrated directional drilling services package with Computalog's directional drilling and MWD services. United GeoCom has established itself into a dominant position in the Canadian directional drilling market and enabled it to continue to expand its US based operation.

The company currently has 55 drilling systems it deploys from its locations in Canada, US and India.

### *Manufacturing*

At its Fort Worth facility, which is ISO 9001 accredited, Computalog designs, manufactures and services open hole and cased hole logging tools, surface equipment and specialized truck-mounted and skid-mounted wireline logging units. Some of this production is sold worldwide to other users. Its Edmonton facility designs and assembles mud pulse MWD systems, drilling motors and certain directional survey tools from parts manufactured by third parties to the company's specifications. These products are either used by the company or sold worldwide.

### *Research and Development*

As part of Precision's commitment to invest in and grow Computalog, the company has accelerated the pace of development of new technology to better serve the needs of the oil and gas industry.



## REVIEW OF OPERATIONS

The Research and Development (R&D) strategy is aimed at maintaining and advancing service offerings in the markets in which Computalog has traditionally been strong. This should ensure rapid entry into new markets with higher-end technology.

### *Technology Advances in Open Hole and Cased Hole Logging*

One of the main R&D focuses has been the development of a new Wireline Communications System (WCS) capable of handling high data rates. This is essential because of the increasing bandwidth required to transmit data as more complex sensors are added to the logging tool string. This development is nearing completion and field deployment will begin in 2000.

New or improved downhole sensor tools soon to be available for open hole logging that will take advantage of the WCS include:

- Monopole-Dipole Acoustic (MDA) tools;
- High-Resolution Borehole Compensated Acoustic (HBC) tools;
- High Definition Micro Imaging (HMI) tools;
- Selective Formation Tester (SFT) tools.

For cased hole services the following tools are under development or improvement to take advantage of the WCS:

- Multi-Array Neutron (MAN) tools;
- Pulsed Neutron Devices (PND);
- Multi-Sensor Caliper (MSC) tools.

### *Technology Advances In MWD And LWD Services*

New markets were the rationale behind the formation of Advantage Engineering Services, Inc. (AES) in 1999. This Computalog subsidiary will focus on the research and development of MWD and LWD technologies and advanced drilling systems. This will position Computalog to expand into the higher-end MWD, LWD and directional drilling markets currently worth over US \$2 billion worldwide.

The AES R&D staff consists of leading MWD and LWD industry experts with over 280 years of cumulative experience in the fields of physics, semiconductor applications, extreme environment, mechanical engineering, and software design. Its R&D strategy is initially directed towards the high temperature MWD market as well as the Gulf of Mexico

## REVIEW OF OPERATIONS

and deep water drilling markets. AES presently plans to develop and improve the existing MWD, Directional and Gamma system and develop additional services such as resistivity measurement, pressure while drilling and environment severity monitoring. Neutron porosity and bulk density sensors will follow.

The outlook is now positive for Computalog. Under Precision, it has the appropriate strategic direction, leadership and capital to compete effectively with the larger multi-national service companies. At the same time, Precision's investment in this "higher end" technology sector of the service business will increase value to both clients and our shareholders.

### **Northland Energy Corporation**

Northland Energy Corporation (**Northland**) is a subsidiary of Precision Drilling Corporation created through the acquisition of Northland and Inter-Tech Drilling Solutions Ltd. in mid 1998. Northland is a "best in class" service company providing separation services for well testing and stimulation recovery as well as a package of integrated wellsite services for UBD. It provides global services in three distinct sectors: Canada, the Western Hemisphere inclusive of the US and Latin America, and the Eastern Hemisphere incorporating the UK, Europe, the Middle East, Far East and Africa.

In Canada, Northland provides both separation and UBD services with the largest fleet of operating units and a staff in excess of 200. Outside Canada, Northland's focus is on UBD services for both land and offshore applications with conventional separation (cleanup and testing) services limited to specific testing programs in the UK. Although Northland is recognized as the world leader in UBD services, over 60% of its annual revenues are generated from conventional separation services.

### *Conventional Separation and Testing Services*

Separation and testing services provides personnel and equipment on a wellsite to recover a mixture of solids, liquids and gases from oil and gas wells. These recoveries include drilling and workover fluids, stimulation products and oil and gas hydrocarbons. Northland equipment is used to safely separate these recovered elements into the respective solids, liquids and gases while accurately measuring each component and ensuring proper well control. The operator requires these services to properly cleanup the well prior to undertaking a flow test to determine the deliverability potential of the well. Clients may also utilize the equipment for "kick control" during drilling operations.



## REVIEW OF OPERATIONS

Northland is the largest provider of such services in Canada with the ability to provide personnel and equipment on 40-45 locations on any given day, 24 hours a day, 365 days a year. Over the last fifteen years Northland has established a reputation as "best in class" in the provision of these services on the high-pressure, sour gas wells common to the foothills regions of Alberta and British Columbia.

An extension to the conventional separation services provided by Northland is the provision of incineration systems. In applications where the operator is forced by regulatory authorities to further restrict gas flaring, the use of portable incineration systems can ensure a 99.95% efficiency destruction of the waste gases. Although incinerators have been used for decades to destroy waste gases of various compositions, this equipment has been limited to permanent installation applications. In 1999 Northland entered into an agreement with a third party to jointly develop portable incineration units designed specifically to work in conjunction with wellsite separation equipment. Northland currently has one incineration unit in operation with a second unit to be commissioned in March 2000. Additional units are to be constructed later in the year based on customer requirements.

### *Underbalanced Drilling*

Northland's experience in conventional separation services and a commitment to solving our customers' problems led to the development of the first separation package for underbalanced drilling in the early 1990's. From this early start in underbalanced drilling operations, Northland has grown to be the market leader for UBD services in land and offshore applications around the world. It offers a complete package of surface equipment as well as engineering and data acquisition capabilities.

1999 was a year of significant transition for the company as the successful integration of Northland and Inter-Tech was followed by the acquisition of Underbalanced Drilling Systems Ltd. (UDSL) and its patented exhaust gas process (EGP) units. By acquiring the EGP technology, Northland is now able to offer an integrated package of UBD services including wellhead pressure control, surface separation equipment and service gas units. The final piece of the integrated package was achieved with the restructuring of the sales and engineering groups of the various acquired entities. This step ensured that we are now able to provide technical support for UBD sales, pre-job engineering to properly assess UBD candidate wells and the all important wellsite engineering services required to ensure successful execution of a UBD drilling program.

## REVIEW OF OPERATIONS

Underbalanced drilling involves the modification of the drilling fluid to reduce the Bottom Hole Circulating Pressure (BHCP) during drilling operations. Although UBD began as a method of addressing formation damage in horizontal wells, the technology is now applied in numerous other applications that will either increase well production or reduce drilling and completion costs. In fact, the term underbalanced drilling is often applied to a variety of drilling operations where the BHCP is equivalent to or above reservoir formation pressure. A more appropriate name is Controlled Pressure Drilling (CPD), since the intent is to control the BHCP within a desired operating envelope that satisfies the objectives of the drilling program.

Northland now offers the complete package of surface services for CPD operations including wellhead pressure control, surface separation, service gas supply as well as wellsite engineering and data acquisition services. The following discussion will briefly review each of the key elements of these services and the equipment utilized by Northland.

### *Wellhead Pressure Control — RBOP™*

Since the original applications of rotary drilling, operators have used the hydrostatic pressure of the drilling fluid column to control the well during drilling operations. The rig blowout prevention (BOP) system was required to ensure wellhead pressure and flow control during planned testing operations or in the event of a gas kick or unanticipated reservoir pressure situation. In the event of any unplanned conditions, the operator would typically suspend drilling operations and secure the well by closing the required BOP element. In CPD applications, the operator requires an enhanced wellhead BOP system. This accommodates continuous drilling operations under circulating conditions where there would be positive pressure on the wellhead annulus with live hydrocarbons blended into the drilling fluid system. Rather than modify the existing wellhead BOP, that is still required for static well control operations and limited stripping operations, an all-purpose rotating diverter was developed.

The system supplied by Northland is the original patented Rotating Blowout Prevention (RBOP™) technology recognized worldwide as the optimum wellhead pressure control system for underbalanced drilling. Northland operates a fleet of 38 RBOP™ units able to mobilize anywhere in the world in land and offshore applications. Northland now has extensive experience in Canada, Europe, the Middle East, the US, Indonesia and Latin America. The new 5000 PSI high pressure model is currently on the test stand and it is expected to be in full commercial operation later in 2000.

**REVIEW OF  
OPERATIONS***Closed Loop Separation Services*

A fundamental component of any CPD program is the requirement for a closed loop surface separation system. The separation system is a single horizontal or vertical pressure vessel designed to separate the drilling cuttings from the liquids. It also separates the injected gas and recovered gas from the fluids for direction to flare or processing.

Northland has been the leader in the development of closed loop separation systems designed specifically for underbalanced drilling operations. It is committed to ongoing separator system development for both land and offshore applications. Northland currently operates a fleet of 20 CPD separation packages both on land and offshore, from the cold Canadian north to offshore drilling in the North Sea and the heat of the Middle East. Northland was the first company to operate an offshore CPD package in full underbalanced conditions for Shell in the North Sea. We expect to have three or four similar packages on contract for the Eastern Hemisphere in the year 2000.

*CPD Service Gas Supply*

The final equipment component for most CPD programs is the addition of a gas phase to the drilling fluid. This artificially reduces the hydrostatic pressure of the annular drilling fluid column. Although almost any gas will satisfy the density requirements of CPD operations, the operator will typically use an inert gas system in the form of liquid nitrogen, membrane nitrogen or exhaust gas.

Liquid nitrogen has been used in the oil and gas industry as a source of inert gas for many years. This is based on availability and the pressure and rate versatility of nitrogen pumping units. Unfortunately, the transportation cost of the liquid nitrogen from the air separation plant to the wellsite can significantly impact the cost of CPD operations. In some areas, this added cost makes the overall CPD operation uneconomic. This has led to the development of alternative nitrogen supply sources for CPD operations, including nitrogen membrane generation units and exhaust gas compression units.

In mid 1999, Northland added inert gas services to its suite of products by acquiring UDSDL, which had developed and patented the exhaust gas technology. This new proven technology required significant management effort to convert the science into a viable service focused operation. We believe that through the commitment of both old and new employees and the in-house expertise of Precision's own compression group, Energy Industries, this initiative is well underway. Northland now can provide an oxygen-free inert gas system for all CPD applications and offer a truly integrated package of "best in class" CPD services matched by no other service group in the world. Based on the



## REVIEW OF OPERATIONS

advantages of the exhaust gas processing technology and the strong customer base for CPD operations in Canada and the US, Northland constructed two new EGP units engineered and packaged by Energy Industries for delivery in early 2000. Additional units will be added based on market demands.

As we enter the new millennium, Northland is positioned as the dominant service provider of CPD services on a domestic and international basis with no peers in equipment or engineering capabilities. Northland's extensive CPD experience in Canada, gained through a high level of CPD drilling activity, allows the opportunity to maintain the best operations and technical staff to fully exploit the growing list of international opportunities. Northland's Canadian business ended 1999 in an upswing, and additionally it was awarded CPD contracts for the North Sea, Indonesia and the Middle East. These markets will expand significantly in the next year, with Northland being the dominant CPD service provider in all regions.

### Well Servicing Group

Precision's Well Servicing Group was acquired in 1996 as part of the EnServ acquisition. Since this acquisition, capital resources were committed to grow and upgrade equipment. However, with declining oil prices in 1998 and faltering utilization, our fleet of service rigs and snubbing units did not expand in 1999. Nonetheless, quality initiatives to enhance customer service and upgrade existing units of production continued to take priority.

### *Snubbing Services*

**Live Well Service (Live)** is the largest supplier of snubbing service to the oil and gas industry in western Canada. With an estimated industry count of 50 units, Live commands a 40% market share. Based in Nisku with an office and shop facility, the company operates 20 snubbing units. A snubbing unit is truck mounted and, once deployed, is operated by two employees. Snubbing is a call-out business with short lead times that requires a flexible and responsive level of service.

Snubbing units are primarily used on natural gas wells while a service (workover) rig is servicing them. The snubbing unit utilizes blowout prevention equipment at the top of the well bore to enable the extraction and re-insertion of production tubing in a live well. Since the snubbing unit controls the well at surface, there is no damage downhole and rates of production are preserved. With the growth in underbalanced drilling, snubbing services are also being used, in certain instances, to insert the drill string into the top section of the hole to counteract upward pressure from the well bore.

## REVIEW OF OPERATIONS

Equipment utilization for the past two years has been marginally above 50%, slightly better than expected given market conditions. With an increase in natural gas well drilling and forecast production increases to meet export demand, Live is positioned for strong revenue growth.

### *Well Servicing*

Drive Well Servicing (**Drive**) is based in Red Deer and operates 76 service rigs in western Canada. Drive is the fifth largest operator in an industry that reported 834 service rigs and 61 different companies. While there are some large competitors, the industry is highly fractured geographically and extremely competitive. Well service rigs are engaged by customers to complete new wells and to workover existing wells to optimize and maintain oil and gas production.

Drive's innovation, coupled with premium people and equipment, provides its clients with cost effective solutions. This is evident in the success of a database tracking system that assists operators to track repetitive well bore failures, eliminating costly return service visits to the wellhead. Another initiative was developed to provide a freestanding, anchorless rig, with the capability to provide cementing services, pipe handling and tubular transport. It has dramatically reduced customers' costs.

Capital upgrades have revitalized Drive's service rig fleet. These upgrades include technological innovation, such as new generation electronic engines, equipment designed for horizontal directional drilling and water-cooled disc brakes.

During 1999, Drive service rigs had utilization of 56% which, as reported by the publication "*Drilling Records for Western Canadian Service Rigs*", matches that of industry.

Consistent with industry fundamentals, Drive is poised to achieve increased equipment utilization on the strength of higher commodity pricing and improved oilfield service activity.

### **Rental and Production Services**

#### **Rental Services**

Montero Oilfield Services Ltd. (**Montero**) operates rental services through three product lines; wellsite trailers, downhole drilling equipment and surface oilfield equipment rental.

**REVIEW OF  
OPERATIONS**

Montero's wellsite trailer business is the manufacture and rental of portable, industrial housing. These units are used as office and living quarters for on-site supervisors and technical staff in the oil and gas, forestry and construction industries. Trailer units are delivered to locations with Montero's own air ride trucks and tri-axle trailers. Our present rental accommodation fleet consists of 300 fully equipped and furnished units. We pride ourselves on providing some of the highest quality and well appointed wellsite accommodation units in the industry.

Our 28,000 square foot manufacturing facility in Spruce Grove, Alberta is located on six acres of industrial property. It is fully equipped to manufacture wellsite accommodation units including custom designed industrial relocatable housing and office units. Montero manufactures units for its own rental fleet as well as providing sales and distribution to drilling contractors and international vendors. A total of 19 trailers were manufactured last year.

With oil commodity prices stabilizing and optimism returning to the oil patch, we anticipate that horizontal drilling will continue to increase. Horizontal drilling now is more complex and requires additional expertise and hence more housing and office units at the wellsite.

Montero also rents specialized drilling equipment to hydrocarbon producers and service and drilling contractors. Its present inventory consists of specialized sizes and grades of oilfield tubulars, blowout prevention equipment, valves, pumps, diverter systems as well as light plants, generators and lighting towers.

The company focuses its marketing on projects that require specialized drill strings or blowout equipment. Each wellsite is different and requires unique equipment. Orders may be for a single rental tool or for a complete drill string consisting of drill pipe, heavy walled drill pipe, drill collars, kellys, kelly drives, handling tools, and blowout preventers.

At the start of this fiscal period the outlook for specialized drilling equipment was bleak as drilling contractors continued to supply this rental equipment at no charge in order to maintain rig utilization. However, recent increases in drilling activity have created a huge demand to the point where such equipment is now in short supply. Further, the stabilization of oil prices has boosted rig rates allowing drilling contractors to price services and supplies separately.

A further aspect of Montero's business is the provision of specialized downhole drilling tools. In previous years, it served as a marketing agent for a major tool manufacturer. However, in recent months Montero has worked closely with an affiliated company Computalog, to design and build its own line of downhole drilling tools to be marketed to operators and directional drilling companies.



## REVIEW OF OPERATIONS

Furthermore, Montero is Canada's largest supplier of general oilfield rental equipment with more than 3,500 pieces of equipment and a market share in excess of 50%. Montero provides equipment to operators covering all phases of the E & P process from drilling through well completion to actual oil and gas production. Its fleet consists of storage tanks, oil and gas separators and related equipment, drilling related surface equipment such as sump and shale tanks, as well as the patented Vapour Tight Oil Battery that allows the safe single well production of oil with H<sub>2</sub>S content.

Montero will continue to maintain market share by offering the best possible service and quality equipment at pricing that is fair to our customers and shareholders. Growth will be selective rather than broad based. New equipment will come from the need to add to specific lines that we now carry and by responding to special customer needs by building equipment to suit.

Activity levels in the oilfield equipment rental business have improved substantially over the last few months, increasing the need for the extensive inventory of oilfield related equipment that we offer. As drilling activity continues to grow, we anticipate increased demand for all of Montero's product lines.

### Production Services

**Energy Industries Inc. (EI)**, which serves the Canadian gas compression market, designs and packages a broad range of natural gas compressors with units ranging from 100 to 5,000 horsepower. The company is an exclusive original equipment manufacturer packager of the Gemini Gas Compressor Frames driven by Caterpillar and Waukesha natural gas engines and various electric motor drivers. EI has established itself as an innovative leader in the design, engineering, manufacturing, leasing and servicing of natural gas compressor packages.

Early in the year, EI solidified its future in Canada and expanded its exposure to the international stage by renegotiating its distribution contract with Gemini Gas Compressors, which was recently acquired by GE Power Systems and is now managed by GE Nuovo Pignone. This has enhanced EI's position through:

- extension of the Canadian exclusivity contract for the Gemini Compressor Line to 2010;
- approval for expansion into international markets;
- access to GE Nuovo Pignones' high spec compressor line.

EI expanded its product line early in 1999 by signing a contract with the Frick Company to package its Frick Rotary Screw compressor. The Frick Company has an established worldwide reputation. The screw compressor has been a successful addition as it complements the reciprocating line by meeting increased demand for booster compression

## REVIEW OF OPERATIONS

applications. The gas compression industry encompasses several applications, including wellhead compression, gas gathering, gas storage, fuel gas boosting, gas lift, enhanced oil recovery, gas processing and acid gas disposal.

Over the past decade, declining reservoir pressures and production rates, and increasing distances to pipelines and gas gathering systems have dictated the need for higher horsepower compression. Average horsepower requirements have more than doubled, from 450 HP to 980 HP. This is evidenced by the company's completion of one of its largest orders consisting of four units totaling 13,340 HP.

In the past year, EI expanded its rental fleet from 20 to 24 units. The rental market is expected to grow as current market conditions have restricted access to capital for many E & P operators. Renting or leasing is an attractive alternative to outright purchasing as it permits cash flow to be freed up for reinvestment in more productive drilling and development programs. The company offers a variety of flexible purchase options including renting, leasing, and buyout options.

EI has also concentrated on enhancing its compressor stocking plan. Building stock packages has been a successful strategy that facilitates just-in-time deliveries demanded by industry.

The gas compression industry has seen dynamic growth and offers tremendous potential for the future as gas increasingly becomes the fuel of choice around the world. Recognizing this, EI took possession in March 1999 of an additional facility in Calgary that now doubles previous production capacity.

CEDA International Corporation (**CEDA**) is a leading provider of industrial maintenance and turnaround services as well as specialized services to various production industries in Canada and the US. The main areas of specialization are industrial cleaning, catalyst handling and mechanical services. These services are often provided under critical time pressures during scheduled shutdowns or emergencies. Canadian operations are based in five permanent offices as well as nine dealerships, while in the US a full suite of services is provided out of ten operating locations.

During the last eight months of 1999, CEDA felt the impact of a downturn in the maintenance budgets of our clients throughout North America. With the price of oil hitting both an eight year low and high during this period, we found our clients were delaying ongoing maintenance programs because of the uncertainty of their costs. On the positive side, maintenance programs that were delayed during this period will have a positive impact on CEDA throughout 2000, as our clients will likely have to catch up on maintenance. Maintenance can only be delayed for so long and when our clients restore their schedules, it usually means larger and longer projects for CEDA.

## REVIEW OF OPERATIONS

North America's growing industrial sector continues to create new and expanded business opportunities in the industrial maintenance and turnaround services. Operations are ideally located in close proximity to the majority of Alberta's industrial activity. CEDA offers its industrial clients (which include oil refineries, petrochemical plants, utility and pulp and paper operations) "one-stop shopping" for the many maintenance services that these plants require to operate efficiently. CEDA's diversified operations provide water blasting and vacuum truck services, chemical cleaning, catalyst handling, environmental services, dredging, dewatering and mechanical services. Since many processing companies outsource aspects of their operations not key to their core business, (such as industrial cleaning), CEDA has structured its business to provide the types of industrial and environmental services no longer done in-house by many processing companies.

For example, the chemical cleaning division has specialized in solving cleaning problems for its clients. Once retained to clean a processing unit, CEDA's team of specialists combine their expertise to provide our clients with an economical and environmental solution. Our in-house chemical laboratory facilities are used to qualify the by-product waste and through further testing determine the most effective approach for disposal. Skilled technicians then move on-site and remove the waste product. The company continually updates its practices to ensure clients receive the best and most environmentally sound maintenance services available.

High pressure water blasting and industrial vacuuming are two of the principal services provided. High pressure water is used for cleaning processing equipment to ensure efficient heat transfer. It is also used for material cutting and surface preparation. Various high pressure water cleaning processes have been adapted for use in the pulp and paper, oil refining and petrochemical industries. The use of robotics in this field has provided CEDA with a competitive edge while making the task far safer and more cost effective.

Catalyst handling is another specialized service offered. The company is a world leader in this area of industrial maintenance. Members of CEDA's Confined Space Entry Team are trained to use proprietary state-of-the-art life support equipment. This enables them to perform tasks such as removal and replacement of catalysts, vessel inspection and repair of internal structures inside processing facilities. Because of the specialized nature of this work, CEDA has developed a number of unique processes and equipment to ensure safe performance in even the most hostile environments. CEDA's safety and training program is becoming one of our major selling features.



## REVIEW OF OPERATIONS

During 1999, our Catalyst Group developed the equipment and personnel to lead CEDA into the tubular reactor market. The Catalyst Group successfully completed two projects using our new equipment, both ahead of schedule and beyond the expectations of our clients. The Catalyst Group expects increased sales from this area during 2000. Training programs support CEDA's outstanding safety record that is vital to new and existing clients.

A key environment-related service offered is the CEDA Emergency Response Team (CERT), which is immediately available to clients in dealing with dangerous goods spills. Available around the clock, CERT comprises chemists, engineers, service technicians and response coordinators who are trained in dangerous goods clean up and are experienced in working in adverse emergency situations. CEDA is a founding member of the Canadian Emergency Spill Responders Network that offers Canada-wide 24-hour emergency response.

The company operates a modern fleet of equipment that includes portable dredges, dewatering centrifuges and unique oil-skimming equipment capable of assisting companies in dealing with a variety of water-related maintenance services including recycling. The equipment and experienced staff service a variety of industries from chemical plants and refineries to mining, utilities and pulp and paper operations.

Complementing the industrial and catalyst services are CEDA's mechanical services, which include bolting, machining and on-line leak repair services. Employing specialized proprietary designed tools, personnel can ensure client bolting requirements are appropriate for the application, eliminating bolting problems. The company provides a full range of machining equipment for on-site use to correct any problem flange connections.

Similarly, the company's expertise in leak repair is well known throughout Canada's industrial sector. Skilled technicians can repair virtually any type of leak on-stream regardless of process, temperature or pressure. Repair techniques are nondestructive and utilize proprietary enclose and clamp design. With over 20 years of experience in the leak repair business, CEDA is the Canadian leader in this specialized service.

Since clients seek contractors who deliver a wide range of services, CEDA has entered into discussions to deliver full maintenance contracts to our multi-facility clients. We will also continue to increase our product line. During 1999, new specialty tools used in cleaning process lines and cokers were developed. These tools open new markets throughout North America for our specialty divisions.

Mid-year, CEDA acquired the assets of Castlegar Pressure Wash Ltd. This acquisition allowed CEDA to expand its services in the interior of British Columbia and the northern US. CEDA is continuing to evaluate acquisitions that bring additional clients, equipment and personnel that complement or add to our current line of services.

## REVIEW OF OPERATIONS

### Health and Safety

Concern for the health, safety and well being of employees, customers and the public will continue to be a major focus of Precision Drilling Corporation. Over the past few years Precision has formulated a participatory approach to safety throughout the Corporation. Starting with the CEO, all officers, managers and employees are expected to share an involvement and accountability for safe operations.

The Corporation accepts the responsibility for leadership of the safety program, for its effectiveness and improvement of safe working conditions. To achieve this commitment, the Corporation has a Health and Safety Policy:

- ☛ to comply with all municipal, provincial or federal regulations applicable to its operations;
- ☛ to maintain a well managed safety program to prevent personal injury and to provide a safe and healthy work environment;
- ☛ to establish responsibilities for all levels of management, employees and contractors to implement this policy and to hold them accountable for their actions;
- ☛ to obtain wholehearted cooperation and input of all employees and contractors in carrying out safe work procedures;
- ☛ to ensure that all new employees receive proper orientation followed by constructive on-the-job training.

The Corporation recognizes that alcohol and drug abuse is a health, safety and security problem that has a direct negative impact on the workplace and on the strength of Canadian business as a whole. As a responsible employer, and as a company dedicated to the pursuit of excellence, Precision has a Drug and Alcohol Policy aimed at establishing as safe and productive work environment as possible. We expect all employees to assist in maintaining this work environment.

## REVIEW OF OPERATIONS

### Environment

Precision Drilling Corporation views environmental issues as key priorities at all levels of the organization. The Corporation considers the protection of the environment important to the day-to-day conduct of business. It is committed to providing high standards of environmental care in all phases of operations.

Environmental protection is a team responsibility. Management has developed policies and procedures within each of its divisions that effectively minimize environmental issues. Employees have the responsibility of bringing to Management's attention any procedures or incidents which may impair environmental protection. Procedures have been developed, with the full involvement of field employees, to monitor and properly dispose of all waste materials. Training courses covering the protection of the environment are encouraged at field and management levels.

To ensure environmental protection receives constant attention within Precision Drilling Corporation, it is the Policy of the Corporation:


- ☛ to comply with all laws and regulations applicable to its operations;
- ☛ to ensure those potential environmental hazards resulting from company activities are considered in the planning process and identified during operations in order to minimize concerns and/or apply corrective action;
- ☛ to inform employees of legal requirements and provide the training and equipment necessary to be in compliance with legislation;
- ☛ to develop the policies, emergency response and operating procedures to minimize the occurrence and consequences of potential environmental incidents.

Prior to the finalization of any acquisition, the Corporation hires independent consultants to conduct a phase one environmental study on any related property and facility being purchased or leased. If there is a potential concern, the Corporation will extend the investigation to a phase two study and ensure that the necessary environmental clean up is complete before taking responsibility for the property or facility.

Management provides environmental reports to the Board of Directors on a regular basis to keep them informed of regulatory observance and environmental practices. The Corporation believes that it is in compliance with applicable legislation and that no material contingent liabilities exist regarding environmental issues.



# PRECISION Drilling Corporation



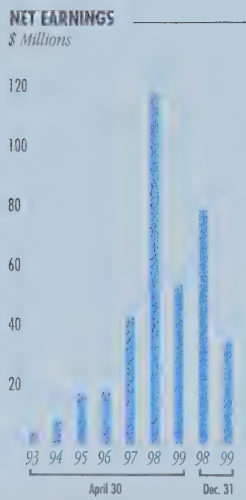
more than

just brute steel.

With leading edge technology, we have the tools to compete as a fully integrated oilfield services group.

The Results in Detail 1999

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



*The Management's Discussion and Analysis focuses on key statistics from the Consolidated Financial Statements, and pertains to known risks and uncertainties relating to the oilfield and industrial service sectors. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other elements may or may not occur which could affect the Corporation in the future. In order to obtain the best overall perspective, this discussion should be read in conjunction with the material contained in other parts of this annual report including the Corporation's audited financial statements and the related notes. The effects on the financial statements arising from differences in generally accepted accounting principles between Canada and the United States are described in Note 14 to the Consolidated Financial Statements.*

Effective December 31, 1999, the Corporation has changed its fiscal period end to December 31 from April 30. The discussion which follows focuses on the audited results for the twelve months ended December 31, 1999 compared to the unaudited results for the twelve months ended December 31, 1998. This comparison will best illustrate the dynamics of our seasonal business and will enhance the reader's ability to assess the Corporation's performance and future prospects. In addition, a brief review of the audited results for the twelve months ended December 31, 1999 as compared to the audited results for the twelve months ended April 30, 1999 is also provided.

### December 1999 Compared to December 1998

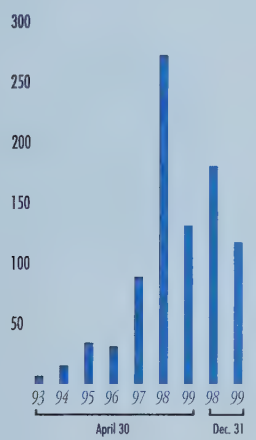
#### Highlights

	Twelve Months Ended December 31			
	1999	% of	1998	% of
<i>(Stated in thousands of dollars, except per share amounts)</i>	<b>(Audited)</b>	<b>Revenue</b>	<b>(Unaudited)</b>	<b>Revenue</b>
Revenue	\$ 734,740		\$ 819,135	
Decrease	10%			
Operating earnings	117,494	16%	180,486	22%
Decrease	35%			
Earnings before goodwill amortization	50,081	7%	92,030	11%
Decrease	46%			
Earnings before goodwill amortization per share	1.13		2.20	
Decrease	49%			
Net earnings	34,250	5%	78,415	10%
Decrease	56%			
Net earnings per share	0.77		1.87	
Decrease	59%			
Funds provided by operations	100,036	14%	168,059	21%
Decrease	40%			
Funds provided by operations per share	2.25		4.01	
Decrease	44%			

**MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS OF  
FINANCIAL  
CONDITION AND  
RESULTS OF  
OPERATIONS**

**OPERATING EARNINGS**

\$ Millions



**Summary Income Statement**

	<i>Twelve Months Ended</i>		
	<b>December 31 1999 (Audited)</b>	December 31 1998 (Unaudited)	April 30 1999 (Audited)
<i>(Stated in thousands of dollars)</i>			
Operating earnings:			
Contract drilling services	\$ 93,348	\$ 132,795	\$ 85,611
Oilfield specialty services	11,312	9,877	7,989
Rental and production services	19,705	48,091	42,362
Corporate and other	(6,871)	(10,277)	(4,417)
	<b>117,494</b>	180,486	131,545
Interest	16,544	19,385	18,860
Gain on disposal of subsidiary and investments	(26,318)	(9,705)	(34,755)
Reduction of carrying amount of investments	13,101	—	10,947
Reduction of carrying amount of property, plant and equipment	10,200	—	10,200
Earnings before income taxes and goodwill amortization	<b>103,967</b>	170,806	126,293
Income taxes	53,886	78,776	58,032
Earnings before goodwill amortization	<b>50,081</b>	92,030	68,261
Goodwill amortization, net of tax	15,831	13,615	14,880
Net earnings	<b>\$ 34,250</b>	\$ 78,415	\$ 53,381

**Consolidated Financial Review**

The past year tested the Corporation's ability to adjust to the highs and lows of the oil and gas exploration and production business. Late in 1998, crude oil prices sank to US \$12 per barrel, the lowest level since 1985, and did not begin to recover in earnest until March 1999. This put severe restraints on our customers' cash flow and on their access to external sources of debt and equity financing. As a direct result of limited funding, field activity levels and pricing for our services declined, which in turn led to reduced revenue and operating margins for the Corporation. As oil prices improved through the remainder of 1999, our customers used their improved cash flow to first strengthen their balance sheets. It was not until the fourth quarter that exploration and production companies were in a position to direct funds to drilling and production enhancement activities. Equipment utilization rates in the fourth quarter of 1999 exceeded those of 1998, however, pricing was still at or below previous year levels.

The rapid change in business conditions in the span of less than a year presented a number of operational challenges, the most significant of which was the securing of personnel to operate equipment as demand increased.



# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## REVENUE

12 months ended December 1999  
Total: \$734.7 MM



The strength of the Canadian economy, and the construction industry in particular, produced greater demand for the labour pool that we traditionally draw from to crew our drilling rigs and other field equipment. Additional recruiting and training programs were put in place to address this challenge.

Results for the year were also impacted by the Corporation's efforts to achieve its long-term goal of providing a full slate of wellsite services. In February 1999, the strategic divestiture of the Corporation's industrial rental division was completed in order to take advantage of the strong industrial market and the attractive pricing of potential investments in our core business. A gain of \$23.6 million was realized on this transaction and the \$119.3 million cash proceeds strengthened the Corporation's balance sheet and its ability to pursue further targeted growth opportunities. To this end, in July 1999, the Corporation purchased all of the outstanding shares of Computalog.

These two transactions had a positive net impact on revenue in 1999 versus 1998 of approximately \$30 million. However, the sale of the high margin industrial rental division and the acquisition of an oilfield service provider during a low point in the business cycle further eroded the Corporation's overall operating margin.

The Corporation's financial results are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). In addition, note 14 to the consolidated financial statements describes the impact on the consolidated financial statements of significant differences between Canadian and US GAAP. Under US GAAP, earnings per share for the twelve months ended December 31, 1999 is \$0.80 compared to \$0.77 under Canadian GAAP.

## Contract Drilling Services

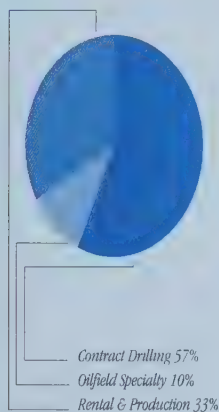
	Twelve Months Ended December 31			
	1999	% of	1998	% of
(Stated in thousands of dollars)	(Audited)	Revenue	(Unaudited)	Revenue
Revenue	\$ 383,921		\$ 465,997	
Expenses:				
Operating	237,318	62%	280,063	60%
General and administrative	18,497	5%	23,861	5%
Depreciation	34,758	9%	29,278	6%
Operating earnings	\$ 93,348	24%	\$ 132,795	29%

Contract Drilling Services revenue declined by \$82.1 million or 18% in 1999. Canadian drilling operations saw utilization fall by 12% in 1999 to 29,084 operating days from 32,894 in 1998. Average domestic day rates also declined by approximately 9% year over year from \$10,159 in 1998 to \$9,265 in 1999. The decline in Canadian

**MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS OF  
FINANCIAL  
CONDITION AND  
RESULTS OF  
OPERATIONS**

**REVENUE**

12 months ended December 1998  
Total: \$819.1 MM



drilling activity was partially offset by increased activity internationally, most notably in Venezuela. The number of rigs working in Venezuela increased from an average of 2.2 in 1998 to 3.6 in 1999 and finished the year with 5 rigs working on contract.

Efforts to build cost structures that are scalable to activity levels have been successful. Operating and general and administrative costs as a percent of revenue remained relatively constant at 67% in 1999 compared to 65% in 1998.

Depreciation expense increased in 1999 as the larger, more expensive rigs accounted for a larger portion of domestic drilling days. Also, depreciation associated with the Venezuela operation increased by \$1.8 million due to the additional rigs working in the country.

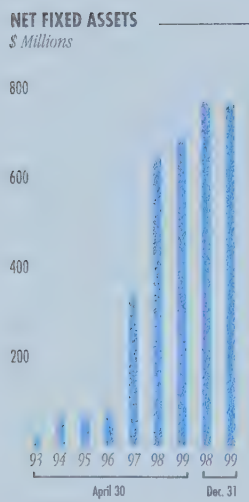
**Oilfield Specialty Services**

	Twelve Months Ended December 31			
	1999	% of	1998	% of
(Stated in thousands of dollars)	(Audited)	Revenue	(Unaudited)	Revenue
Revenue	\$ 171,881		\$ 83,932	
Expenses:				
Operating	120,966	70%	60,425	72%
General and administrative	18,391	11%	6,966	8%
Depreciation	17,583	10%	6,664	8%
Research and engineering	3,629	2%	—	—
Operating earnings	\$ 11,312	7%	\$ 9,877	12%

The \$87.9 million increase in Oilfield Specialty Services revenue is attributable to the acquisition of Computalog in July 1999. Computalog contributed \$86.6 million to revenue in 1999. Well servicing revenue declined by \$3.0 million or 6% as operating hours fell from 108,255 in 1998 to 106,846 in 1999 and revenue per operating hour declined by 4%. Utilization of our well servicing rigs was supported by arrangements with our alliance customers in our key operating areas. Demand for production testing and underbalanced drilling services declined in 1999. Associated revenues in 1999 amounted to \$39.4 million, compared to \$34.8 million for the period from May 1, 1998, the date this business was acquired, to December 31, 1998.

Low oil prices in early 1999 slowed the development of underbalanced drilling in both domestic and foreign markets, as producers were reluctant to commit scarce funds to relatively new technology. The cost of systems to support the introduction of underbalanced drilling had a negative impact on margins.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



The addition of Computalog has impacted the cost structure of this segment in a number of ways. First, general and administrative expense increased relative to revenue due to the greater number of staff required to support Computalog's high tech operations. Second, depreciation expense is more of a fixed cost as Computalog's capital assets are depreciated on a straight-line basis. Well servicing capital assets are depreciated on a unit of production basis. Finally, the Corporation's commitment to invest in technological innovation is indicated by the amount of research and engineering expenses being incurred.

## Rental and Production Services

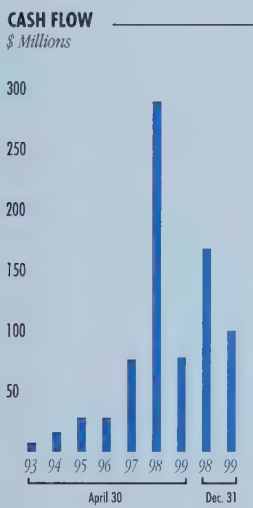
	Twelve Months Ended December 31			
	1999		1998	
	(Audited)	% of Revenue	(Unaudited)	% of Revenue
<i>(Stated in thousands of dollars)</i>				
Revenue	\$ 178,938		\$ 268,885	
Expenses:				
Operating	133,809	75%	185,651	69%
General and administrative	10,849	6%	13,913	5%
Depreciation	14,575	8%	21,230	8%
Operating earnings	\$ 19,705	11%	\$ 48,091	18%

The \$89.9 million decline in Rental and Production Services revenue was due to two factors. First was the sale of our industrial equipment rental operation in February 1999. This resulted in a \$56.2 million reduction in revenue. Second, each of the gas compression, oilfield equipment rental and industrial maintenance and turnaround businesses in this segment experienced reduced demand for their services as a result of depressed oil prices. This segment was the last component of our business to feel the full affect of low oil prices as its products and services are associated more with oil and gas production than with drilling activity. Similarly, activity level increases in this segment will lag those of contract drilling by a short period.

Operating margins declined due to pricing pressures brought on by low demand and the sale of the higher margin industrial rental business. General and administrative expenses were adjusted as revenues declined, however the fixed nature of many of these items resulted in a marginal increase in expense as a percent of revenue. Capital assets in this segment are depreciated on a straight-line basis. The decline in depreciation expense is a result of the sale of the industrial rental operation.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



### Corporate and Other Expenses

Corporate general and administrative expenses, including employee compensation packages, have been managed in concert with the reduced activity levels across all our business units. The primary reason for the decline in corporate expenses is reduced salary and bonus payments to employees. Substantial bonuses were incurred in early 1998 related to record activity levels and financial results generated by the Corporation during its old fiscal year ended April 30, 1998.

### Interest Expense

Net interest expense decreased by \$2.8 million or 15% due largely to the reduction in the Corporation's average net borrowings as a result of the receipt of proceeds from the sale of the industrial rental division in February 1999. Net borrowings increased in mid 1998 with the cash used in the acquisition of Northland and Inter-Tech and other asset purchases.

### Gain on Disposal of Subsidiary

In February 1999 the Corporation sold its 100% owned subsidiary, Certified Rentals Inc. Certified was in the industrial tool and equipment rental business. This cash transaction netted proceeds of \$119.3 million, after transaction costs, and the associated gain was \$23.6 million.

### Gain on Disposal of Investments

The Corporation holds an equity investment in a company formerly known as Western Rock Bit Company Limited (WRB) which sold substantially all of its assets and distributed the majority of the proceeds to its shareholders. The excess of distributions from WRB over the carrying value of the Corporation's investment in WRB was recognized as a gain of \$11.1 million on the sale of investment. The distributions were received in two components; therefore, \$1.4 million of the gain was recorded in 1999 with the larger portion being recorded in 1998. In addition, the Corporation realized a gain of \$1.3 million on the sale of other equity investments.

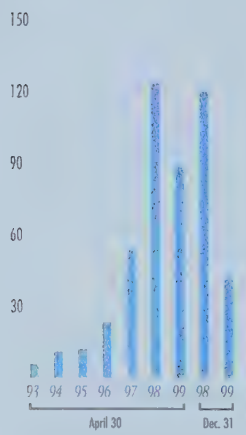
### Reduction of Carrying Amount of Investments

Prior to making the offer to purchase all the remaining shares of Computalog, the Corporation owned 2,563,000 common shares of the company. These shares had an average cost of \$12.81 per share. The investment was written down to a carrying amount of \$9.00 per share being the amount originally offered by the Corporation for the purchase of all the remaining shares of Computalog. In addition, certain other investments were written down to their estimated net realizable value resulting in a combined charge to income of \$13.1 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CAPITAL EXPENDITURES

\$ Millions



### Reduction of Carrying Amount of Property, Plant and Equipment

The carrying amount of the Corporation's wellsite trailer rental fleet was written down to an amount that reflects the net estimated revenue it will generate over its useful life. This resulted in a \$10.2 million charge to income.

### Income Taxes

The effective tax rate on income before taxes and goodwill amortization was 52% in 1999 compared to the statutory rate of 45%. This increase resulted from the impact of non-deductible items including depreciation (\$1.3 million) and the write down of the investment in Computalog and other investments (\$4.9 million). The impact of these items was offset somewhat by the impact of the utilization of loss carry-forwards (\$1.7 million).

Effective January 1, 2000, the Corporation will prospectively adopt the liability method of accounting for income taxes in accordance with the recommendations of the Canadian Institute of Chartered Accountants. This method is substantially the same as that required under US GAAP. Prior to this date, the Corporation followed the tax allocation method of accounting for income taxes. The most significant impact of this change is that the Corporation's provision for income taxes in future years will not be increased by the affect of non-deductible depreciation.

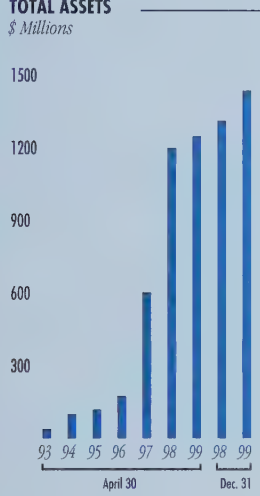
### Goodwill Amortization

Amortization of goodwill increased by \$2.2 million in 1999 over 1998. Northland and Inter-Tech were acquired in May and June, respectively, of 1998. A full year's amortization of the goodwill associated with these acquisitions was charged to income in 1999. The acquisition of Computalog in July 1999 also added to monthly goodwill amortization of approximately \$0.2 million.

The Corporation has adopted a recent recommendation of the Canadian Institute of Chartered Accountants' which allows the presentation of its earnings both before and after goodwill amortization. This recommendation is consistent with a practice we expect to be adopted by US companies in 2001, in anticipation of a more restricted use of the pooling of interests method of accounting for business combinations. This presentation will also better facilitate a comparison of our results with those of our US peers who have used pooling of interest accounting in the past.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**TOTAL ASSETS**  
\$ Millions



## December 1999 Compared to April 1999

### Consolidated Financial Review

Consolidated revenue increased by \$40.9 million or 6% in the twelve months ended December 31, 1999 as compared to the twelve months ended April 30, 1999. The \$40.9 million increase in revenue is primarily attributable to the net impact of the sale of the industrial rental division and the acquisition of Computalog. Canadian drilling activity increased in the final quarter of calendar 1999 compared to the same period in 1998, however this was offset by reduced revenue in the Corporation's other businesses, which tend to lag drilling activity levels.

Consolidated operating earnings declined by \$14.1 million and as a percent of revenue declined from 19% to 16%. Slow demand for oilfield services resulted in steadily declining prices and margins. Although the pricing recovery in the last quarter of 1999 was significant, it was not sufficient to offset the earlier impact of prolonged depressed activity levels. In addition, the sale of the high margin industrial rental division and the acquisition of Computalog at a low point in the oilfield services market, negatively affected operating profitability.

The following analysis addresses variations and items not previously discussed in the comparison of December 1999 and 1998 results.

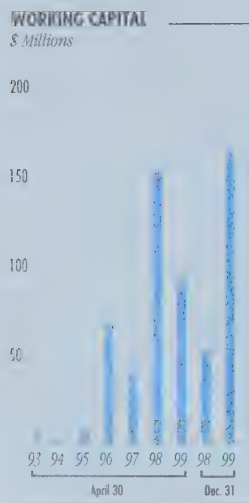
### Contract Drilling Services

	Twelve Months Ended			
	December 1999	% of Revenue	April 1999	% of Revenue
<i>(Stated in thousands of dollars)</i>				
Revenue	\$ 383,921		\$ 356,322	
Expenses:				
Operating	237,318	62%	219,124	62%
General and administrative	18,497	5%	19,579	5%
Depreciation	34,758	9%	32,008	9%
Operating earnings	\$ 93,348	24%	\$ 85,611	24%

Contract Drilling Services revenue increased by \$27.6 million or 8%. Canadian drilling operations saw activity increase 11% to 29,084 operating days from 26,158 for the twelve months ended April 30, 1999. Operating days for the fourth quarter of calendar 1999 increased by 65% to a total of 10,320 compared to 6,268 for the same period of 1998. In addition, activity in Venezuela increased revenue \$16.5 million. Cost structures remained consistent between the two periods.



**MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS OF  
FINANCIAL  
CONDITION AND  
RESULTS OF  
OPERATIONS**



**Oilfield Specialty Services**

	<i>Twelve Months Ended</i>			
	December 1999	% of Revenue	April 1999	% of Revenue
<i>(Stated in thousands of dollars)</i>				
Revenue	\$ 171,881		\$ 94,912	
Expenses:				
Operating	120,966	70%	68,114	72%
General and administrative	18,391	11%	10,342	11%
Depreciation	17,583	10%	8,467	9%
Research and engineering	3,629	2%	—	—
Operating earnings	\$ 11,312	7%	\$ 7,989	8%

The increase in revenue is attributable to Computalog, which contributed \$86.6 million since its acquisition in July 1999. This increase was offset by reduced demand for well servicing, well testing and underbalanced drilling services.

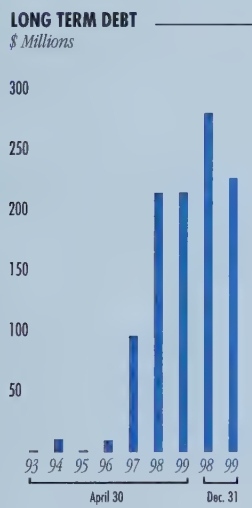
The overall cost structures of this segment have been relatively consistent between these two comparative periods.

**Rental and Production Services**

	<i>Twelve Months Ended</i>			
	December 1999	% of Revenue	April 1999	% of Revenue
<i>(Stated in thousands of dollars)</i>				
Revenue	\$ 178,938		\$ 242,561	
Expenses:				
Operating	133,809	75%	166,628	69%
General and administrative	10,849	6%	13,501	6%
Depreciation	14,575	8%	20,070	8%
Operating earnings	\$ 19,705	11%	\$ 42,362	17%

Revenue declined by \$63.6 million of which, \$48.0 million was due to the sale of the industrial rental division in February 1999. The remaining decrease is due to lower demand for the oilfield rental, gas compression and industrial maintenance services offered by this segment. The decline in operating earnings as a percent of revenue is also due to the sale of the relatively higher margin industrial rental division.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



### Net Interest Expense

Net interest expense decreased by \$2.4 million from \$18.9 million in the twelve months ended April 30, 1999 to \$16.5 million in the twelve months ended December 31, 1999. The decrease is due to interest income earned on the cash proceeds received on the sale of the industrial rental division offset somewhat by interest on debt assumed on the acquisition of Computalog.

### Liquidity and Capital Resources

#### Liquidity

Funds provided by operations for the twelve months ended December 31, 1999 amounted to \$100.0 million and capital expenditures amounted to \$56.1 million. Over the years the Corporation has maintained the conservative policy of correlating capital expenditure levels to cash flow. This practice is a key element of our business risk management strategy and will continue in the future.

At December 31, 1999 the Corporation had working capital of \$162.9 million. This amount is net of \$50.5 million of long-term debt, assumed on the acquisition of Computalog. The Corporation intends to repay this credit facility within the next year, therefore the full amount has been included in current liabilities. The majority of the Corporation's remaining long-term debt does not have annual repayment requirements.

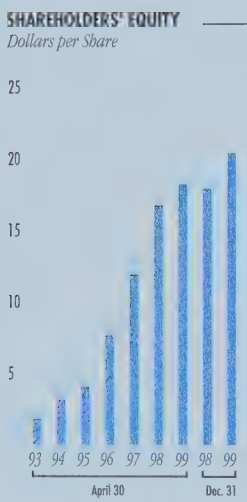
The Corporation's cash balance in excess of what is required for day to day operations is invested in short-term instruments issued by entities with not less than an R-1 Middle credit rating. The inventory of operating supplies, parts and materials required to carry on daily operations has increased with the acquisition of Computalog.

#### Capital Resources

The Corporation has structured its credit arrangements to provide the flexibility necessary to act quickly when business expansion opportunities arise. The credit facilities allow the Corporation to make investment decisions independent of short-term cash flow considerations.

At year-end the Corporation had long-term debt of \$226.8 million and its long-term debt to equity ratio was a conservative 0.25 to 1. The Corporation has an extendable revolving unsecured facility of \$125.0 million with a syndicate led by a Canadian chartered bank, which remains unutilized. The Corporation believes that its strong balance sheet and unutilized borrowing capacity, combined with funds generated from operations will provide sufficient capital resources to fund its on-going operations and future expansion.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



## Business Risks

### Crude Oil and Natural Gas Prices

The price received by our customers for the crude oil and natural gas they produce has a direct impact on cash flow available to them to finance the acquisition of services provided by the Corporation.

Prices for crude oil are established in a worldwide market in which supply and demand are subject to a vast array of economic and political influences. This results in very volatile pricing; a prime example of which was experienced in 1999. Natural gas prices are established in a more "local" North American market due to the requirement to transport this gaseous product in pressurized pipelines. Demand for natural gas is seasonal and is correlated to heating and electricity generation requirements.

The Corporation manages the risk of volatile commodity prices, and thus fluctuating demand for its services, by striving to maintain efficient cost structures that are scalable to activity levels. In addition, our strong balance sheet and adherence to conservative financing practices provides the resilience to withstand and benefit from downturns and upturns in the business cycle.

### Workforce Availability

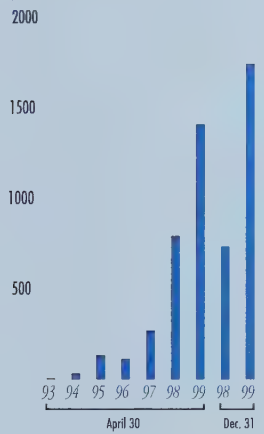
The Corporation's ability to provide reliable services is dependent upon the availability of well trained, experienced crews to operate our field equipment. The strong Canadian economy combined with the seasonality of employment offered by many of our business units has increased the challenge of attracting qualified personnel. We must also balance the requirement to maintain a skilled workforce with the need to establish cost structures that vary with activity levels.

Our personnel departments have systems in place and expend considerable effort to maintain contact with employees during periods of low utilization. The Corporation has established training programs for employees new to the oilfield service sector and we work closely with industry associations to ensure competitive compensation levels.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

VALUE OF SHARES  
OUTSTANDING  
\$ Millions



### Weather

The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the Corporation's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen hard enough to support equipment. The timing of freeze up and spring breakup affects the ability to move equipment in and out of these areas.

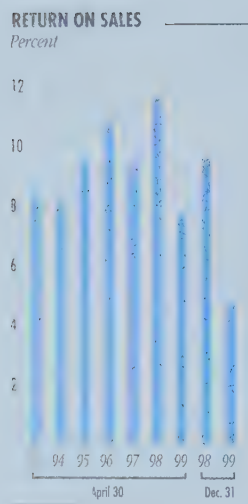
Working with customers, we try to position equipment such that it can be working on location during spring breakup, limiting the need to move equipment during this time period as much as possible. However, many uncontrollable factors affect our ability to plan in this fashion and the spring season, which can occur any time from March through May, is traditionally our slowest time.

### Technology

Technological innovation by oilfield service companies has improved the profitability of the entire exploration and production sector over the industry's 140-year history. Recently, development of slant drilling, directional and horizontal drilling, underbalanced drilling, coiled tubing drilling, and methods of providing real time data during drilling and production operations have increased production volumes and the recoverable amount of discovered reserves. Innovations such as 3-D and 4-D seismic have maintained the success rate of exploration wells as the quantity of drillable prospects declines.

Our ability to deliver more efficient services is critical to our continued success. The Corporation has continuously built upon its experience and teamed with customers to provide solutions to their unique problems. Our ability to design and build specialized equipment has kept us on the leading edge of technology. With the acquisition of Computalog, the Corporation has entered a segment of the market where high-end technological innovation is paramount to success. Computalog has recently assembled a team of highly qualified experienced professionals to focus on developing leading technologies in this market.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



### Equity and Debt Markets

The Corporation's customers have depended on the public equity and debt markets to finance spending on exploration and development activities that has traditionally exceeded internally generated cash flow. The ability of our customers to access these sources of financing will impact the long-term demand for the Corporation's services.

### Natural Gas Supply

North American natural gas demand is strong and growing. The industry has focused on the WCSB as the source of supply to satisfy a significant portion of this increased demand. The Corporation's substantial operations in western Canada are poised to benefit from the increased natural gas activity created by this supply and demand imbalance. Recent offshore natural gas discoveries in eastern Canada could, in the long-term, provide competition to western Canadian supplies.

### Acquisition Integration

The Corporation has worked towards its strategic objective of becoming an integrated service provider of sufficient size to benefit from economies of scale and to provide the foundation from which to pursue international opportunities. Business acquisitions have been an important tool in this pursuit and will continue to be so in the future. Continued successful integration of new businesses, people and systems is key to our future success.

### Foreign Operations

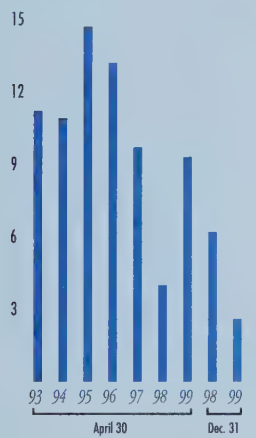
The Corporation is working hard to export its expertise and technologies to oil and gas producing regions around the world. With this comes the risk of dealing with business and political systems that are much different than we are accustomed to in North America. The Corporation has hired employees who have experience working in the international arena and is committed to including resident nationals on the staffs of international operations.

### Foreign Currency Exchange Rates

The Corporation's primary foreign currency risk exposure is to fluctuations in the Canadian to US dollar exchange rate. This risk comes from two sources. First, transactions undertaken by the Corporation's foreign operations are denominated almost exclusively in US dollars. Second, many of our domestic business units buy a portion of their parts and materials in the US. As a result, the Corporation is expected to be a net payer of US dollars in the year 2000. However, this exposure is not significant to the Corporation's overall operations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**RETURN ON ASSETS**  
Percent



### Merger and Acquisition Activity

Recent merger and acquisition activity in the oil and gas exploration and production sector has impacted demand for our services as customers focus on reorganization activities prior to committing funds to significant drilling and maintenance projects. Continued merger and acquisition activity could have a short-term impact on our business, but in the long-term should result in stronger, more active customers.

### Outlook

Management has an optimistic outlook for the future. Commodity prices in the oil and gas industry are arguably the best they have ever been.

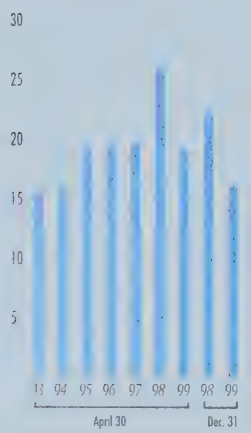
- Oil prices have staged a remarkable recovery thanks to the newfound resolve and cooperation of OPEC oil producers to reduce production levels. The high crude oil inventory levels that were overhanging the world market and depressing prices a year ago have now disappeared. World oil production now has to be increased to meet demand and US\$20-plus per barrel oil prices appears to be sustainable through 2000 and into 2001.
- Transportation capacity to move natural gas out of western Canada is now in excess of production capabilities. Natural gas demand is ever increasing, particularly in the US. Pricing reflects this tight demand and supply situation. Analysts are currently predicting that Canadian natural gas is expected to sell for near record prices in 2000.
- The economics of heavy oil production, a plentiful resource in western Canada, have improved dramatically with prices expected to be strong through 2000. Increased refining and pipeline capacity will aid in maintaining this situation for the longer-term.
- Strong commodity prices will give oil and gas producing companies the ability to fund near record levels of exploration and production activity out of internally generated cash flow. Equity financing, which has been nearly nonexistent in today's high-tech focused market, will not be as critical to sustaining activity levels in the near term.

All three of our business segments have gathered momentum in the last quarter of 1999 and indications are that this will continue through 2000 and 2001, barring a collapse of crude oil prices. The diversity of our drilling fleet will allow us to participate in the expected increased drilling for deep foothills gas, shallow gas and heavy oil.



**MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS OF  
FINANCIAL  
CONDITION AND  
RESULTS OF  
OPERATIONS**

**OPERATING EARNINGS**  
*Percent of Sales*



The cyclical downturn we experienced in 1998/1999 resulted in a more efficient operation, which will lead to improved profitability as we take advantage of the operating leverage associated with our business. Our international drilling operations have proven successful and we are optimistic that we will be able to announce further growth in the near future.

The addition of Computalog to our Oilfield Specialty Services segment was timely. Its wireline logging, LWD and MWD equipment are working at full capacity. The strong oilfield services market will provide ample opportunity to capitalize on the anticipated results of our extensive research and development effort in this high-tech field. The segment's underbalanced drilling services are also in high demand in Canada and we have recently been awarded additional international contracts by major companies. Acceptance of this new technology was delayed by the low oil price induced cut backs in worldwide exploration and production activity. However, recent interest indicates that this situation is changing. The call on our well servicing rigs and snubbing units to perform well completion and production maintenance and enhancement work will be strong as high drilling activity results in new wells being put into production.

Utilization of our fleet of rental equipment and wellsite trailers is weighted towards oil exploration and development activity and these assets will generate improved results with the renewed interest in heavy oil. Our compression manufacturing business entered 2000 with an order backlog of \$30 million and demand should remain high as new gas wells are brought on production in order to fill expanded transportation capacity. Our industrial services group is expected to continue its steady growth and is well positioned to benefit from the increased investment in Alberta's oilsands projects.

Finally, we will continue to explore acquisition opportunities that will further our objective of being a high-tech, international, integrated oil and gas service company.

# PRECISION Drilling Corporation



more than

just brute steel.

With leading edge technology, we have the tools to compete as a fully integrated oilfield services group.

The Numbers in **1999**

**MANAGEMENT'S  
REPORT  
TO SHAREHOLDERS**

*eight months ended*

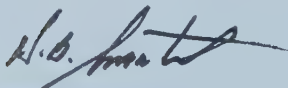
The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon the Corporation's financial results prepared in accordance with Canadian GAAP. The Corporation has changed its year end to December 31 from April 30, effective December 31, 1999. The MD & A compares the audited financial results for the twelve months ended December 31, 1999 to the unaudited results for the twelve months ended December 31, 1998. In addition, significant differences between the audited results for the twelve months ended December 31, 1999 and April 30, 1999 are highlighted. Note 14 to the consolidated financial statements describes the impact on the consolidated financial statements of significant differences between Canadian and United States GAAP.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

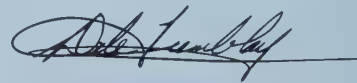
KPMG LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at the Corporation's most recent annual general meeting, to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The Audit Committee of the Board of Directors, which is comprised of three directors who are independent of management of the Corporation, has discussed the consolidated financial statements, including the notes thereto, with management and external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



**Hank B. Swartout**

Chairman of the Board,  
President and Chief Executive Officer  
February 16, 2000



**Dale E. Tremblay**

Senior Vice President Finance  
and Chief Financial Officer



**AUDITORS' REPORT  
TO SHAREHOLDERS**

*For the eight months ended  
December 31, 1999 and  
years ended December 31  
and April 30, 1999*

We have audited the consolidated balance sheets of Precision Drilling Corporation as at December 31, 1999 and April 30, 1999 and the consolidated statements of earnings and retained earnings and cash flow for the eight months ended December 31, 1999 and the years ended December 31 and April 30, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31 and April 30, 1999 and the results of its operations and its cash flow for the eight months ended December 31, 1999 and the years ended December 31 and April 30, 1999 in accordance with Canadian generally accepted accounting principles.

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for the eight months ended December 31, 1999 and the years ended December 31, 1999 and April 30, 1999 and shareholders' equity as of December 31, 1999 and April 30, 1999, to the extent summarized in Note 14 to the consolidated financial statements.



**KPMG LLP**  
Chartered Accountants  
Calgary, Canada

February 16, 2000



**CONSOLIDATED  
BALANCE SHEETS**

**December 31**  
**1999**      **April 30**  
**1999**

(in dollars)

**ASSETS**

## Current assets:

Cash	\$ 5,550	\$ 5,620
Investment in short-term commercial paper	46,775	96,947
Accounts receivable	239,088	127,891
Income taxes recoverable	3,531	—
Inventory (Note 2)	59,566	30,701
	<b>354,510</b>	<b>261,159</b>

## Property, plant and equipment, at cost less

accumulated depreciation (Note 3)	761,589	683,548
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Goodwill, net of amortization of \$38,077 (April 30 - \$27,230)	304,400	259,779
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Investments (Note 4)	7,399	34,380
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Deferred financing costs, net of amortization of \$2,852 (April 30 - \$2,070)	8,389	8,850
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**\$1,436,287**      **\$1,247,716**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

## Current liabilities:

Bank indebtedness	\$ 3,353	\$ 6,445
Accounts payable and accrued liabilities	129,766	74,680
Income taxes payable	—	72,139
Current portion of long-term debt (Note 5)	58,524	16,734

**191,643**      **169,998**

Long-term debt (Note 5)	226,815	215,014
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Deferred foreign exchange gain	2,421	—
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Deferred income taxes	106,613	94,393
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## Shareholders' equity:

Share capital (Note 6)	627,923	508,011
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Retained earnings	280,872	260,300
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**908,795**      **768,311**

## Contingencies and commitments (Notes 8, 9 and 18)

**\$1,436,287**      **\$1,247,716**

See accompanying notes to consolidated financial statements.

Approved by the Board:


**Hank B. Swartout**

Director


**H. Garth Wiggins**

Director

**CONSOLIDATED  
STATEMENTS OF  
EARNINGS AND  
RETAINED EARNINGS**

*(Stated in thousands of dollars except  
per share amounts)*

	<i>Eight months ended</i>	<i>Years ended</i>	
	December 31	December 31	April 30
	1999	1999	1999
Revenue	\$ 511,442	\$ 734,740	\$ 693,855
Expenses:			
Operating	346,278	487,960	450,135
General and administrative	41,266	58,429	51,114
Depreciation	46,208	67,228	61,061
Research and engineering	3,629	3,629	—
	437,381	617,246	562,310
Operating earnings	74,061	117,494	131,545
Interest:			
Long-term debt	13,103	19,634	19,898
Other	306	481	520
Income	(2,564)	(3,571)	(1,558)
Gain on disposal of subsidiary and investments <i>(Note 9)</i>	(1,268)	(26,318)	(34,755)
Reduction of carrying amount of investments	2,154	13,101	10,947
Reduction of carrying amount of property, plant and equipment	—	10,200	10,200
Earnings before income taxes and goodwill amortization	62,330	103,967	126,293
Income taxes: <i>(Note 10)</i>			
Current	24,303	69,299	96,902
Deferred (reduction)	6,557	(15,413)	(38,870)
	30,860	53,886	58,032
Earnings before goodwill amortization	31,470	50,081	68,261
Goodwill amortization, net of tax	10,898	15,831	14,880
Net earnings	20,572	34,250	53,381
Retained earnings, beginning of period	260,300	246,622	206,919
Retained earnings, end of period	\$ 280,872	\$ 280,872	\$ 260,300
Earnings per share before goodwill amortization: <i>(Note 11)</i>			
Basic	\$ 0.69	\$ 1.13	\$ 1.62
Fully diluted	\$ 0.68	\$ 1.09	\$ 1.56
Earnings per share: <i>(Note 11)</i>			
Basic	\$ 0.45	\$ 0.77	\$ 1.27
Fully diluted	\$ 0.45	\$ 0.76	\$ 1.22

*See accompanying notes to consolidated financial statements.*

**CONSOLIDATED  
STATEMENTS OF CASH  
FLOW**

*(stated in thousands of dollars except  
share amounts)*

	<i>Eight months ended</i> December 31 1999	<i>Years ended</i> December 31 1999	April 30 1999
Cash provided by (used in):			
Operations:			
Net earnings	\$ 20,572	\$ 34,250	\$ 53,381
Items not affecting cash:			
Depreciation	46,208	67,228	61,061
Goodwill amortization	10,898	15,831	14,880
Deferred income taxes	6,557	(15,413)	(38,870)
Amortization of deferred financing costs	782	1,157	1,127
Gain on disposal of subsidiary and investment <i>(Note 9)</i>	(1,268)	(26,318)	(34,755)
Reduction of carrying amount of investments	2,154	13,101	10,947
Reduction of carrying amount of property, plant and equipment	—	10,200	10,200
Funds provided by operations	85,903	100,036	77,971
Changes in non-cash working capital balances <i>(Note 17)</i>	(116,965)	(62,219)	121,518
	(31,062)	37,817	199,489
Investments:			
Acquisitions <i>(Note 13)</i>	4,809	1,932	(164,069)
Purchase of property, plant and equipment	(46,079)	(56,117)	(102,054)
Proceeds on sale of property, plant and equipment	11,607	14,969	13,781
Investments	319	(3,125)	(10,828)
Proceeds on disposal of investment and subsidiary <i>(Note 9)</i>	2,231	122,929	137,040
	(27,113)	80,588	(126,130)
Financing:			
Increase in long-term debt	18,909	109,688	170,871
Repayment of long-term debt	(15,973)	(187,860)	(194,414)
Issuance of common shares, net	8,089	11,558	4,860
	11,025	(66,614)	(18,683)
Increase (decrease) in cash	(47,150)	51,791	54,676
Cash (bank indebtedness), beginning of period	96,122	(2,819)	41,446
Cash, end of period	\$ 48,972	\$ 48,972	\$ 96,122
Funds provided by operations per share: <i>(Note 11)</i>			
Basic	\$ 1.88	\$ 2.25	\$ 1.85
Fully diluted	\$ 1.79	\$ 2.13	\$ 1.76

Cash is defined as cash and investment in short term commercial paper, net of bank indebtedness.

*See accompanying notes to consolidated financial statements.*



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Eight months ended December 31,  
1999 and years ended December 31  
and April 30, 1999*

*(Tabular amounts stated in thousands of  
dollars except per share amounts)*

Precision Drilling Corporation (the Corporation) is a vertically integrated oilfield service company, providing oilfield and industrial services to customers worldwide.

The financial statements are prepared in accordance with generally accepted accounting principles in Canada. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

During 1999, the Corporation changed its fiscal year end from April 30 to December 31. The financial statements presented are for the eight months ended December 31, 1999 and for the years ended December 31 and April 30 1999.

### 1. Significant Accounting Policies:

#### (a) Principles of consolidation:

The consolidated financial statements include the accounts of the Corporation, its subsidiaries, all of which are wholly-owned, and its proportionate share of joint ventures.

#### (b) Inventory:

Inventory is valued at the lower of average cost and replacement value.

#### (c) Property, plant and equipment:

Drilling rig equipment is depreciated on a unit-of-production method based on 3,650 drilling days, except for drill pipe and drill collars, which are depreciated over 1,100 drilling days. Service rig

equipment is depreciated on a unit-of-production method based on the estimated useful life of the equipment varying from 1,500 to 2,000 days.

Field technical equipment is depreciated on a straight-line basis over periods ranging from 2 to 5 years.

Rental equipment is depreciated on a straight-line basis over periods ranging from 5 to 15 years.

Other equipment is depreciated on a straight-line basis over periods ranging from 3 to 10 years.

Light duty vehicles are depreciated on a straight-line basis over four years. Heavy-duty vehicles are depreciated on a straight-line basis over 10 years.

Buildings are depreciated on a straight-line basis over periods ranging from 10 to 30 years.

#### (d) Revenue recognition:

Revenue is primarily recognized after services are rendered based upon daily or hourly rates. The Corporation's manufacturing operations recognize revenue on contracts on a percentage of completion basis.

#### (e) Investments:

Investments in shares of associated companies, over which the Corporation has significant influence, are accounted for by the equity method. Other investments are carried at cost. If there is an other than a temporary decline in value, these investments would be written down to their net realizable value.

#### (f) Deferred financing costs:

Costs associated with the issuance of long-term debt are deferred and amortized on a straight-line basis over the term of the debt. The amortization is included in interest expense.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(g) Goodwill:**

Goodwill is recorded at cost and amortized on a straight-line basis over 20 years. The recoverability of goodwill is assessed, if indications of impairment are present, based on estimated undiscounted future cash flows.

**(h) Income taxes:**

The Corporation follows the tax allocation method of accounting for income taxes. Under this method, deferred income taxes are recorded to the extent that taxable income otherwise determined is adjusted by timing differences.

Effective January 1, 2000, the Corporation will prospectively adopt the liability method of accounting for income taxes in accordance with the recommendations of the Canadian Institute of Chartered Accountants. Under this method, future income tax liabilities and assets are recognized to the extent that assets and liabilities are recorded in the accounts at amounts different than their tax basis.

**(i) Post employment benefits:**

The Corporation has entered into an employment agreement of no fixed term with a senior officer, which provides for certain post employment benefits. Costs of these benefits are charged to earnings on a straight-line basis over ten years.

**(j) Foreign currency translation:**

Accounts of foreign operations, all of which are considered financially and operationally integrated, are translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities are translated at the year end current exchange rate and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net earnings. Gains and losses related to foreign currency denominated long-term debt are deferred and amortized over the term of the debt.

**(k) Stock-based compensation plans:**

The Corporation has equity incentive plans, which are described in Note 6. No compensation expense is recognized for these plans when stock options are issued. Any consideration received on exercise of the stock options is credited to share capital.

**(l) Research and engineering:**

Research and engineering costs are charged to income as incurred. Costs associated with the development of new operating tools and systems are expensed during the period unless the recovery of these costs can be reasonably assured given the existing and anticipated future industry conditions. Upon successful completion and field testing of the tools any deferred costs are transferred to the related capital asset accounts.

**(m) Comparative figures:**

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

**2. Inventory:**

	December 31 1999	April 30 1999
Finished goods and work in progress	\$ 23,930	\$ 17,539
Operating supplies	18,406	4,639
Manufacturing parts and materials	17,230	8,523
	<u>\$ 59,566</u>	<u>\$ 30,701</u>

**3. Property, Plant and Equipment:**

	December 31, 1999	Accumulated Cost depreciation	Net book value
Rig equipment	\$ 632,015	\$ 126,935	\$ 505,080
Field technical equipment	106,563	11,962	94,601
Rental equipment	80,815	22,877	57,938
Other equipment	76,259	29,289	46,970
Vehicles	27,174	9,592	17,582
Buildings	26,093	5,186	20,907
Other	13,062	5,569	7,493
Land	11,018	—	11,018
	<u>\$ 972,999</u>	<u>\$ 211,410</u>	<u>\$ 761,589</u>

April 30, 1999	Cost	Accumulated depreciation	Net book value
Rig equipment	\$ 617,438	\$ 110,880	\$ 506,558
Field technical equipment	24,429	2,793	21,636
Rental equipment	83,699	25,719	57,980
Other equipment	67,298	22,638	44,660
Vehicles	25,842	8,303	17,539
Buildings	21,583	4,099	17,484
Other	12,941	4,093	8,848
Land	8,843	—	8,843
	<b>\$ 862,073</b>	<b>\$ 178,525</b>	<b>\$ 683,548</b>

Included in property, plant and equipment are assets with net book value of \$121.1 million at December 31, 1999 (\$125.1 million at April 30, 1999) that are without tax basis. Depreciation expense related to these assets is non-deductible for tax purposes resulting in an increase in the Corporation's effective tax rates.

#### 4. Investments:

	December 31 1999	April 30 1999
Shares of Computalog Ltd., at lower of cost and net realizable value	\$ —	\$ 23,070
Others, at cost less provision for impairment	<b>4,494</b>	11,210
Others, at equity	<b>2,905</b>	100
	<b>\$ 7,399</b>	<b>\$ 34,380</b>

#### 5. Long-Term Debt:

	December 31 1999	April 30 1999
Unsecured Debentures	\$ 200,000	\$ 200,000
Unsecured Notes (US \$35,000)	<b>50,516</b>	—
EDC Facility (US \$23,750)	<b>34,278</b>	18,233
Term Acquisition Loan	—	12,000
Capital lease obligations	<b>545</b>	1,515
	<b>285,339</b>	231,748
Less amounts due within one year	<b>58,524</b>	16,734
	<b>\$ 226,815</b>	<b>\$ 215,014</b>

The \$200.0 million 6.85% unsecured debentures mature June 26, 2007 and have an effective interest rate of 7.44% after taking into account deferred financing costs. The debentures are redeemable at any time at the option of the Corporation upon payment of a redemption price equal to the greater of the Canada Yield Price and par.

The US \$35.0 million of unsecured senior notes bear interest at a fixed rate of 7.78%. The Corporation has given notice to the lenders that it will be exercising its early prepayment option with respect to these senior notes. The principal amount outstanding along with accrued interest and early prepayment costs will be paid in 2000. Accordingly, the amount outstanding at December 31 has been included in the current portion of long-term debt.

The Corporation has established an unsecured US \$23.8 million term financing facility with the Export Development Corporation (EDC Facility). This facility is repayable over five years in nine semi-annual installments and bears interest at six-month US Libor plus applicable margin. The margin is dependent upon the Corporation's credit rating, which at December 31, 1999 results in a margin of 0.8%.

The Corporation has an extendable revolving unsecured facility (the Facility) of \$125.0 million (or US \$ equivalent) with a syndicate led by a Canadian chartered bank. Advances under the Facility bear interest at the bank's prime lending rate. The Facility is extendable annually at the option of the lenders. Should this facility not be extended, outstanding amounts will be transferred to a two-year term facility repayable in equal quarterly installments. As at December 31, 1999, no amount was drawn under this facility.

During 1999, the Corporation had a \$12.0 million term acquisition loan. This loan was with the same banking syndicate as the revolving unsecured facility described above and bore interest at the same rates. The loan was repaid in September 1999.

Principal repayments over the next five years are as follows:

2000	\$ 58,524
2001	7,748
2002	7,637
2003	7,621
2004	3,809

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 6. Share Capital:

## Authorized

- unlimited number of non-voting cumulative convertible redeemable preferred shares without nominal or par value
- unlimited number of common shares without nominal or par value

## Issued

The following is a summary of the changes in share capital:

Common Shares	Number	Amount
Balance, April 30, 1998	41,497,518	\$ 489,651
Issued on acquisition of Northland Energy Corporation	450,000	13,500
Options exercised	131,000	1,390
Balance, December 31, 1998	42,078,518	504,541
Options exercised	320,050	3,470
Balance, April 30, 1999	42,398,568	508,011
Issued on acquisition of Computalog Ltd.	4,031,441	106,107
Issued on acquisition of Underbalanced Drilling Systems Ltd.	217,158	5,716
Options exercised	515,852	8,089
<b>Balance, December 31, 1999</b>	<b>47,163,019</b>	<b>\$ 627,923</b>

The Corporation has equity incentive plans under which a combined total of 4,036,235 options to purchase common shares can be granted to employees and directors. Under these plans, the exercise price of each option equals the fair market value of the Corporation's stock on the date of the grant and an option's maximum term is five years. Options vest over a period of four years from the date of grant as employees or directors render continuous service to the Corporation.

A summary of the status of the equity incentive plans as at December 31, 1999 and April 30, 1999, and changes during the periods then ended is presented below:

	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price	Options Exercisable
Outstanding at April 30, 1998	3,141,600	\$ 2.25 - 44.38	\$ 20.36	208,462
Granted	1,006,800	13.50 - 25.50	19.92	
Exercised	(451,050)	2.25 - 21.15	10.77	
Cancelled or expired	(336,500)	14.08 - 34.50	22.17	
Outstanding at April 30, 1999	3,360,850	\$ 6.50 - 44.38	\$ 21.31	496,500
Granted	1,291,340	25.75 - 33.60	32.93	
Exercised	(515,852)	6.50 - 34.50	15.68	
Cancelled or expired	(196,500)	7.00 - 34.50	25.13	
<b>Outstanding at December 31, 1999</b>	<b>3,939,838</b>	<b>\$ 13.50 - 44.38</b>	<b>\$ 25.57</b>	<b>827,097</b>



The range of exercise prices for options outstanding at December 31, 1999 are as follows:

Range of Exercise Prices:	Total Options Outstanding			Exercisable Options	
	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Exercise Price
\$ 13.50 - 19.99	1,069,704	\$ 14.42	2.8	309,800	\$ 14.32
20.00 - 29.99	1,123,294	24.69	2.8	263,297	23.52
30.00 - 39.99	1,726,840	32.82	4.0	244,000	31.46
40.00 - 44.38	20,000	44.38	2.7	10,000	44.38
\$ 13.50 - 44.38	3,939,838	\$ 25.57	3.3	827,097	\$ 22.67

## 7. Employee Benefit Plans:

The Corporation has a defined contribution employee benefit plan covering a significant number of its employees. The Corporation matches individual employee contributions up to 5% of the employee's base compensation. Employer matching contributions under the plan totalled \$2.2 million for the eight months ended December 31, 1999 and \$3.0 million for the year ended December 31, 1999 (year ended April 30, 1999 - \$3.3 million). Employer matching contributions vest over a five year period.

## 8. Commitments:

The Corporation has commitments for operating lease agreements in the aggregate amount of \$75.7 million. Payments over the next five years are as follows:

2000	\$ 14,282
2001	11,541
2002	8,985
2003	6,586
2004	6,256

Rent expense included in the statements of earnings is as follows:

Eight months ended December 31, 1999	\$ 4,033
Year ended December 31, 1999	5,322
Year ended April 30, 1999	3,606

## 9. Gain on Disposal of Subsidiary and Investments:

	Eight months ended December 31 1999	December 31 1999	Years ended April 30 1999
Gain on disposal of Subsidiary	\$ —	\$ 23,607	\$ 23,607
Gain on disposal of Investments	1,268	2,711	11,148
	\$ 1,268	\$ 26,318	\$ 34,755

Effective February 18, 1999, the Company sold its 100% owned subsidiary, Certified Rentals Inc. (Certified), for cash proceeds of \$119.3 million, net of transaction costs. The purchase price adjustment provisions of the Certified sale agreement are currently the subject of arbitration proceedings, the outcome of which is not determinable at this time. The potential adjustment is not significant to the Corporation's financial position or results of operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The gain on disposal of investment relates to the Corporation's equity investment in Western Rock Bit Company Limited (WRB) which sold substantially all of its assets. In May 1998, the Corporation received a liquidating dividend from WRB in the amount of \$16.3 million and in April 1999, the Corporation received a liquidating dividend from WRB in the amount of \$1.4 million.

### 10. Income Taxes:

The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	<i>Eight months ended</i>		<i>Years ended</i>	
	December 31	December 31	April 30	
	1999	1999	1999	
Earnings				
before income taxes	\$ 51,432	\$ 88,136	\$ 111,413	
Income tax rate	45%	45%	45%	
Expected income				
tax provision	\$ 23,144	\$ 39,661	\$ 50,136	
Add (deduct):				
Non-deductible expenses	555	1,313	1,236	
Utilization of prior				
period losses	—	(1,657)	(1,657)	
Non-deductible				
depreciation and				
amortization	6,709	10,146	10,215	
Liquidating dividend				
from taxable				
Canadian				
corporation	—	—	(5,016)	
Reduction of carrying				
amount of				
investments	—	4,926	4,926	
Other	452	(503)	(1,808)	
	\$ 30,860	\$ 53,886	\$ 58,032	

The Corporation has non-capital losses in the amounts of \$26.0 million and \$6.1 million available to shelter future income earned in the US and Venezuela, respectively. The benefit of these loss carry-forwards has not been recognized.

The Corporation's operations are complex and the computation of the provision for income taxes involves tax interpretations, regulations and legislation that are continually changing. There are tax matters that have not yet been confirmed by taxation authorities, however, management believes that the provision for income taxes is adequate.

### 11. Earnings and Funds Provided by Operations Per Share:

Per share amounts have been calculated on the weighted average number of common shares outstanding. The weighted average shares outstanding for the eight months ended December 31, 1999 was 45,619,602 and for the year ended December 31, 1999 was 44,499,837 (year ended April 30, 1999 - 42,085,695).

Fully diluted per share amounts reflect the dilutive effect of the exercise of the options outstanding. The fully diluted shares outstanding for the eight months ended December 31, 1999 was 49,080,000 and for the year ended December 31, 1999 was 47,851,960 (year ended April 30, 1999 - 45,308,088). Earnings on the funds which would have been received on exercise of the options have been imputed at 5% per annum.

### 12. Significant Customers:

During the eight months ended December 31, 1999 and the years ended December 31 and April 30, 1999, no one customer accounted for more than 5% of the Corporation's revenue.

### 13. Acquisitions:

During the eight months ended December 31, 1999, the Corporation completed the following acquisitions:

(a) Acquisition of all the issued and outstanding shares of Computalog Ltd. (Computalog) in July 1999. Computalog provides electric wireline logging services and directional drilling services to the oil and gas industry and manufactures and sells specialty products, tools and equipment.

(b) Acquisition of all the issued and outstanding shares of Underbalanced Drilling Systems Ltd. (Underbalanced) in July 1999. Underbalanced provides a service gas for use in underbalanced drilling applications.

The acquisitions have been accounted for by the purchase method with results of operations of the acquired entities included in the financial statements from the effective dates of acquisition. The details of the acquisitions are as follows:

	Computalog	Underbalanced	Total
Net assets acquired at assigned values:			
Working capital	\$ 49,798 <sup>(a)</sup>	\$ (303) <sup>(b)</sup>	\$ 49,495
Property, plant and equipment	82,628	7,149	89,777
Investments	3,204	—	3,204
Deferred financing costs	321	—	321
Goodwill	55,518	—	55,518
Long-term debt	(52,165)	(911)	(53,076)
Deferred income taxes	(5,663)	—	(5,663)
	<u>\$ 133,641</u>	<u>\$ 5,935</u>	<u>\$ 139,576</u>
Consideration:			
Common Shares	\$ 106,107	\$ 5,716	\$ 111,823
Carrying amount of Computalog shares acquired prior to April 30, 1999	23,070	—	23,070
Cash	4,464	219	4,683
	<u>\$ 133,641</u>	<u>\$ 5,935</u>	<u>\$ 139,576</u>

(a) Includes cash of \$9,392

(b) Includes cash of \$100

The following pro forma information provides an indication of what the Corporation's results of operations would have been had Computalog been acquired effective May 1, 1999, January 1, 1999 or May 1, 1998:

	<i>Eight months ended</i>	<i>Years ended</i>	
	December 31	December 31	April 30
	1999	1999	1999
Revenue	\$ 533,694	\$ 810,914	\$ 865,044
Earnings before goodwill amortization	12,540	24,775	60,380
Net earnings	1,077	7,454	42,724
Earnings per share before goodwill amortization:			
Basic	\$ 0.27	\$ 0.53	\$ 1.31
Fully diluted	0.27	0.53	1.26
Earnings per share:			
Basic	\$ 0.02	\$ 0.16	\$ 0.93
Fully diluted	0.02	0.16	0.93

During the year ended April 30, 1999, the Corporation completed several acquisitions, the most significant of which were:

(a) Acquisition of all the issued and outstanding shares of Northland Energy Corporation (Northland) in May 1998. Northland provides underbalanced drilling services domestically and internationally.

(b) Acquisition of all of the issued and outstanding shares of Inter-Tech Drilling Solutions Ltd. (Inter-Tech) in June 1998. Inter-Tech owned and marketed the RBOP™, a well control device used in underbalanced drilling operations.

(c) Acquisition of seven drilling rigs and related equipment from Brinkerhoff Drilling General Partnership in May 1998, and the acquisition of 16 well service rigs and related equipment from Brockham Oilwell Servicing (1986) Ltd. in June 1998.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The acquisitions were accounted for by the purchase method with results of operations of the acquired entities included in the financial statements from the effective dates of acquisition. The details of the acquisitions are as follows:

	Northland	Inter-Tech	Brinkerhoff, Brockham	Others	Total
Net assets acquired at assigned values:					
Working capital	\$ 5,493 <sup>(a)</sup>	\$ 2,770 <sup>(b)</sup>	\$ —	\$ 2,597 <sup>(c)</sup>	\$ 10,860
Property, plant and equipment	17,683	9,903	43,500	22,480	93,566
Goodwill	39,894	37,400	—	7,516	84,810
Investments	—	1	—	—	1
Long-term debt	(4,242)	(1,726)	—	(7,279)	(13,247)
Deferred income taxes	3,581	(285)	—	—	3,296
	<u>\$ 62,409</u>	<u>\$ 48,063</u>	<u>\$ 43,500</u>	<u>\$ 25,314</u>	<u>\$ 179,286</u>
Consideration:					
Common Shares	\$ 13,500	\$ —	\$ —	\$ —	\$ 13,500
Cash	48,909	48,063	43,500	25,314	165,786
	<u>\$ 62,409</u>	<u>\$ 48,063</u>	<u>\$ 43,500</u>	<u>\$ 25,314</u>	<u>\$ 179,286</u>

(a) Includes bank indebtedness of \$1,617

(b) Includes cash of \$3,417

(c) Includes bank indebtedness of \$83

**Consolidated Balance Sheets Based on Accounting Principles:**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) which, in the case of the Corporation, conform with United States generally accepted accounting principles (US GAAP) in all material respects, except as follows:

**Consolidated Balance Sheets**

Under US GAAP, the purchase price allocation associated with the acquisition of subsidiaries should recognize deferred taxes based on the difference between assigned pre-tax values for property, plant and equipment and the related tax balances.

The impact on the consolidated balance sheets is as follows:

	As reported	Increase	US GAAP
December 31, 1999			
Goodwill	\$ 304,400	\$ 70,032	\$ 374,432
Deferred income taxes	\$ 106,613	\$ 70,032	\$ 176,645
April 30, 1999			
Goodwill	\$ 259,779	\$ 56,300	\$ 316,079
Deferred income taxes	\$ 94,393	\$ 56,300	\$ 150,693



### Consolidated Statements of Earnings

Under US GAAP, unrealized foreign exchange gains or losses arising on the translation of long-term debt denominated in a foreign currency are included in earnings. The effect of this difference on net earnings before income taxes and goodwill amortization is as follows:

	<i>Eight months ended</i>		<i>Years ended</i>	
	December 31	<b>December 31</b>		April 30
	1999	<b>1999</b>		1999
As reported	\$ 62,330	\$ <b>103,967</b>		\$ 126,293
Effect of above difference	2,421	<b>2,421</b>		—
Under US GAAP	\$ 64,751	\$ <b>106,388</b>		\$ 126,293

Under US GAAP earnings per share (EPS) reflects the application of treasury stock method for outstanding options. Earnings per share under US GAAP is as follows: basic for the eight months ended December 31, 1999, \$0.48 and for the year ended December 31, 1999, \$0.80 (April 30 - \$1.27) and fully diluted for the eight months ended December 31, 1999, \$0.47 and for the 12 months ended December 31, 1999, \$0.79 (April 30 - \$1.26). Options to purchase 2,061,827 common shares for the eight months ended December 31, 1999 and 1,904,465 common shares for the year ended December 31, 1999 (April 30 - 2,094,307) were not included in the computation of fully diluted EPS as the options' exercise prices were greater than the average market price of the common shares during 1999.

### Consolidated Statements of Cash Flow

Bank indebtedness would not be included as a component of cash. The change in bank indebtedness would be presented as a financing activity as follows:

	<i>Eight months ended</i>		<i>Years ended</i>	
	December 31	<b>December 31</b>		April 30
	1999	<b>1999</b>		1999
Change in bank indebtedness	\$ (3,092)	\$ <b>58</b>		\$ 6,445

The effect of this difference on the consolidated statements of cash flow is as follows:

	<i>Eight months ended</i>		<i>Years ended</i>	
	December 31	<b>December 31</b>		April 30
	1999	<b>1999</b>		1999
Financing:				
As reported	\$ 11,025	\$ <b>(66,614)</b>		\$ (18,683)
Effect of above differences	(3,092)	<b>58</b>		6,445
Under US GAAP	\$ 7,933	\$ <b>(66,556)</b>		\$ (12,238)

The net deferred tax liability is comprised of the tax effect of the following temporary differences:

	<b>December 31</b>		April 30
	<b>1999</b>		1999
Deferred tax liabilities:			
Property, plant and equipment	\$ <b>157,403</b>		\$ 132,022
Assets held in partnership with different tax year	<b>19,522</b>		20,729
Deferred financing costs	<b>3,859</b>		4,071
	\$ <b>180,784</b>		\$ 156,822
Deferred tax assets:			
Reserves	\$ <b>2,946</b>		\$ 4,381
Share issue costs	<b>1,193</b>		1,748
	<b>4,139</b>		6,129
Net deferred tax liability	\$ <b>176,645</b>		\$ 150,693

### Stock Compensation

Under Canadian GAAP, no compensation cost has been recognized for stock options in the financial statements. Under US GAAP, the Corporation applied APB Opinion No. 25 in accounting for stock options and, accordingly, no compensation cost is recognized in earnings. The per share weighted-average fair value of stock options granted during the eight months ended December 31, 1999 was \$9.44, and during the year ended December 31, 1999 was \$8.66 (April 30, 1999 - \$9.85) on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the eight months ended December 31, 1999 - risk-free interest rate of 5%, expected life of five years and expected volatility of 43%; for the year ended December 31, 1999 - risk-free interest rate of 5%, expected life of five years and expected volatility of 46% (April 30, 1999 - risk-free interest rate of 5%, expected life of five years and expected volatility of 50%).

Had the Corporation determined compensation cost based on the fair value at the date of grant for its stock options under SFAS 123, net earnings in

accordance with US GAAP would have decreased by \$2.6 million to \$18.0 million (basic EPS \$0.39) for the eight months ended December 31, 1999 decreased by \$6.3 million to \$27.9 million (basic EPS \$0.63) for the year ended December 31, 1999 and decreased by \$6.6 million to \$46.8 million (basic EPS - \$1.11) for the year ended April 30, 1999. These pro forma earnings reflect compensation cost amortized over the options' vesting period.

### Comprehensive Income

Comprehensive income is equal to net earnings.

### Segmented Information:

The Corporation operates in three industry segments. Contract Drilling Services, which provides drilling services, Oilfield Specialty Services, which includes well servicing, well testing, underbalanced drilling, wireline and directional drilling services and the manufacture and sale of wireline tools and equipment, and Rental and Production Services, which includes compression equipment design, packaging, sales and service, oilfield equipment rental services, industrial equipment rentals (to February 18, 1999) and other industrial process services.

	Contract Drilling Services	Oilfield Specialty Services	Rental and Production Services	Corporate and Other	Total
Eight months ended December 31, 1999					
Revenue	\$ 248,397	\$ 141,214	\$ 121,831	\$ —	\$ 511,442
Operating earnings	55,273	10,610	14,594	(6,416)	74,061
Depreciation	22,619	14,318	9,124	147	46,208
Assets	764,264	408,640	188,524	74,859	1,436,287
Capital expenditures*	22,492	9,392	10,936	3,259	46,079
Year ended December 31, 1999					
Revenue	\$ 383,921	\$ 171,881	\$ 178,938	\$ —	\$ 734,740
Operating earnings	93,348	11,312	19,705	(6,871)	117,494
Depreciation	34,758	17,583	14,575	312	67,228
Assets	764,264	408,640	188,524	74,859	1,436,287
Capital expenditures*	25,422	11,386	15,800	3,509	56,117
Year ended April 30, 1999					
Revenue	\$ 356,322	\$ 94,912	\$ 242,561	\$ 60	\$ 693,855
Operating earnings	85,611	7,989	42,362	(4,417)	131,545
Depreciation	32,008	8,467	20,070	516	61,061
Assets	720,532	193,143	194,956	139,085	1,247,716
Capital expenditures*	56,962	12,542	32,185	365	102,054

\* excludes acquisitions

The Corporation's operations are carried on in the following geographic locations:

	Domestic	International	Total
Eight months ended December 31, 1999			
Revenue	\$ 426,740	\$ 84,702	\$ 511,442
Assets	1,273,649	162,638	1,436,287

#### Year ended

#### December 31, 1999

<b>Revenue</b>	<b>\$ 615,222</b>	<b>\$ 119,518</b>	<b>\$ 734,740</b>
<b>Assets</b>	<b>1,273,649</b>	<b>162,638</b>	<b>1,436,287</b>

#### Year ended

#### April 30, 1999

Revenue	\$ 600,613	\$ 93,242	\$ 693,855
Assets	1,165,247	82,469	1,247,716

### 16. Financial Instruments:

The carrying value of cash, investments in short term commercial paper, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The fair value of long-term debt, exclusive of the unsecured debentures, approximates its carrying value as it bears interest at floating rates. The \$200 million unsecured debentures have a fair value of approximately \$191.8 million as at December 31, 1999 (April 30, 1999 - \$195.2 million). Investments have a carrying value of \$7.4 million (April 30, 1999 - \$34.4 million) and a fair value of approximately \$7.4 million (April 30, 1999 - \$33.3 million) as at December 31, 1999.

Accounts receivable includes balances from a large number of customers. The Corporation assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accordingly, the Corporation views the credit risks on these amounts as normal for the industry. At December 31, 1999 the Corporation's allowance for doubtful accounts was \$6.6 million (April 30, 1999 - \$5.0 million).

The Corporation manages its exposure to interest rate risks through a combination of fixed and floating rate borrowings. As at December 31, 1999, 12% of its total long-term debt was in floating rate borrowings.

The Corporation is exposed to foreign currency fluctuations in relation to its international operations, however, management believes this exposure is not material to its overall operations.

### 17. Supplemental Cash Flow Information:

	Eight months ended December 31 1999	Years ended December 31 1999	April 30 1999
Cash interest paid	\$ 15,163	\$ 16,663	\$ 20,153
Cash income taxes paid	99,973	120,238	30,465
Components of change in non-cash working capital balances:			
Accounts receivable	\$ (84,682)	\$ (48,414)	\$ 100,897
Inventory	(5,242)	(4,927)	4,764
Accounts payable and accrued liabilities	35,981	16,072	(52,785)
Income taxes payable	(63,022)	(24,950)	68,642
	\$ (116,965)	\$ (62,219)	\$ 121,518

The components of accounts payable and accrued liabilities are as follows:

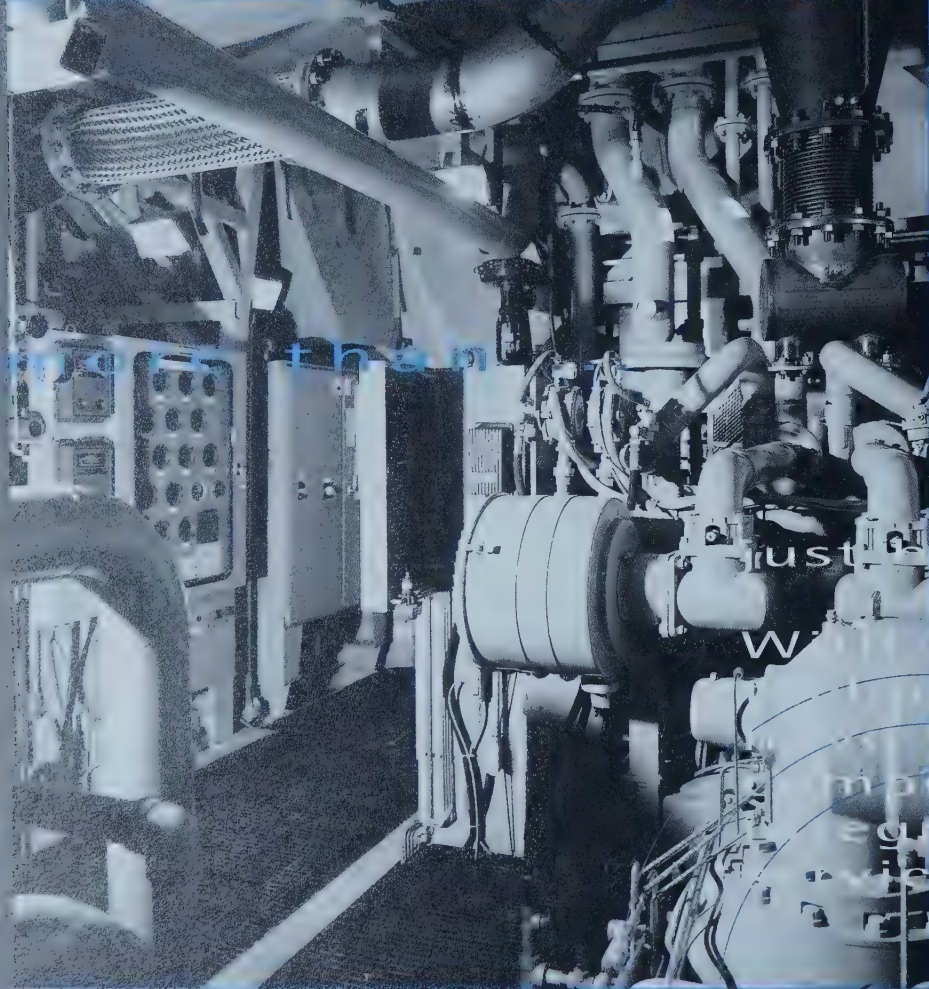
	December 31 1999	April 30 1999
Accounts payable	\$ 40,494	\$ 21,652
Accrued liabilities:		
Payroll	25,959	14,265
Other	63,313	38,763
	\$ 129,766	\$ 74,680

### 18. Contingencies:

The Corporation, through the performance of its services and product sales obligations, is sometimes named as a defendant in litigation. The nature of these claims is usually related to personal injury, completed operations or product liability. The Corporation maintains a level of insurance coverage deemed appropriate by management and for matters for which insurance coverage can be maintained. The Corporation has no outstanding claims having a potentially material adverse effect on the Corporation as a whole.



# PRECISION Drilling Corporation



What's new

rust-erude steel.

With leading edge technology, we have the tools to compete as a fully integrated oilfield services group.

The track record 1999



**SUPPLEMENTARY INFORMATION****Statements of Earnings and Retained Earnings**

(\$millions except per share amounts)	<i>Years ended December 31</i>				<i>Years ended April 30</i>				1993
	1999	1998*	1999	1998	1997	1996	1995	1994	
Revenue	734.7	819.1	693.9	1,012.5	455.1	163.1	178.6	97.6	44.3
Expenses:									
Operating	488.0	522.7	450.1	620.3	314.9	112.5	122.4	68.1	31.0
General and administrative	58.4	57.8	51.1	59.3	29.4	12.3	12.1	8.8	4.2
Depreciation	67.2	58.1	61.1	60.5	21.8	7.7	9.8	5.0	2.2
Research and engineering	3.6	—	—	—	—	—	—	—	—
Operating earnings	117.5	180.5	131.6	272.4	89.0	30.6	34.3	15.7	6.9
Interest, net	16.5	19.4	18.9	17.1	4.0	0.7	1.5	0.6	0.4
Gain on disposal of subsidiary and investments	(26.3)	(9.7)	(34.8)	—	—	—	—	—	—
Reduction of carrying amount of investments	13.1	—	11.0	—	—	—	—	—	—
Reduction of carrying amount of property, plant and equipment	10.2	—	10.2	—	—	—	—	—	—
Dividend income	—	—	—	1.9	0.7	0.4	0.7	—	0.3
Earnings before taxes, goodwill amortization and minority interest	104.0	170.8	126.3	257.2	85.7	30.3	33.5	15.1	6.8
Income taxes:									
Current	69.3	52.3	96.9	29.2	31.3	9.8	14.9	3.8	1.5
Deferred (recovery)	(15.4)	26.5	(38.9)	99.3	8.6	2.7	1.5	3.3	1.5
	53.9	78.8	58.0	128.5	39.9	12.5	16.4	7.1	3.0
Earnings before goodwill amortization and minority interest	50.1	92.0	68.3	128.7	45.8	17.8	17.1	8.0	3.8
Goodwill amortization	15.8	13.6	14.9	11.2	3.4	—	—	—	—
Earnings before minority interest	34.3	78.4	53.4	117.5	42.4	17.8	17.1	8.0	3.8
Minority interest	—	—	—	—	—	0.2	0.2	—	0.1
Net earnings	34.3	78.4	53.4	117.5	42.4	17.6	16.9	8.0	3.7
Retained earnings, beginning of period	246.6	175.8	206.9	97.4	55.0	37.4	20.7	12.7	9.0
Adjustment on purchase and cancellation of share capital	—	(7.6)	—	(7.6)	—	—	(0.2)	—	—
Dividends on preferred shares	—	—	—	(0.4)	—	—	—	—	—
Retained earnings, end of period	280.9	246.6	260.3	206.9	97.4	55.0	37.4	20.7	12.7
Earnings before goodwill amortization and minority interest per share:									
Basic (\$)	1.13	2.20	1.62	3.10	1.55	1.05	1.04	0.51	0.33
Fully diluted (\$)	1.09	2.08	1.56	2.94	1.46	0.97	0.95	n/a	n/a
Earnings per share:									
Basic (\$)	0.77	1.87	1.27	2.82	1.44	1.04	1.03	0.51	0.32
Fully diluted (\$)	0.76	1.78	1.22	2.67	1.36	0.96	0.94	n/a	n/a

\* Unaudited

## SUPPLEMENTARY INFORMATION

## Additional Selected Financial Data

(\$millions except per share amounts)	Years ended December 31				Years ended April 30				
	1999	1998*	1999	1998	1997	1996	1995	1994	1993
Returns									
Return on Sales <sup>(1)</sup>	4.7%	9.6%	7.7%	11.6%	9.3%	10.8%	9.5%	8.2%	8.4%
Return on Assets <sup>(2)</sup>	2.6%	6.2%	9.3%	4.0%	9.7%	13.2%	14.7%	10.9%	11.2%
Return on Equity <sup>(3)</sup>	4.2%	10.4%	15.9%	7.1%	16.2%	20.8%	29.1%	20.0%	21.0%
Financial Position									
Working capital	162.9	52.3	91.2	152.0	39.8	67.0	8.4	3.3	6.2
Current ratio	1.85	1.34	1.54	2.08	1.35	4.01	1.21	1.11	1.69
Net fixed assets	761.6	768.1	683.5	643.7	328.5	82.0	66.8	64.8	22.3
Total assets	1,436.3	1,310.9	1,247.7	1,197.4	602.8	175.6	119.1	100.6	38.6
Long-term debt	226.8	280.7	215.0	214.6	96.3	9.7	1.4	10.7	1.4
Shareholders' equity	908.8	751.2	768.3	696.6	353.4	130.8	67.0	50.1	22.1
Long-term debt to shareholders' equity	0.25	0.37	0.28	0.31	0.27	0.07	0.02	0.21	0.06
Net capital expenditures excluding acquisitions	41.1	119.7	88.3	123.0	53.6	23.1	11.8	10.8	3.2
EBITDA <sup>(4)</sup>	184.9	238.6	192.7	332.9	110.8	38.3	44.1	20.7	9.1
EBITDA — % of sales	25.2	29.1	27.8%	32.9%	24.3%	23.5%	24.7%	21.2%	20.5%
Operating earnings	117.5	180.5	131.6	272.4	89.0	30.6	34.3	15.7	6.9
Operating earnings - % of sales	16.0%	22.0%	19.0%	26.9%	19.6%	18.8%	19.2%	16.1%	15.5%
Cash flow <sup>(5)</sup>	100.0	168.1	78.0	289.5	76.2	28.2	28.3	16.3	7.5
Cash flow per share (\$)	2.25	4.01	1.85	6.97	2.58	1.66	1.73	1.04	0.63
Depreciation	67.2	58.1	61.1	60.5	21.8	7.7	9.8	5.0	2.2
Common Share Data									
Book value per share (\$) <sup>(6)</sup>	20.42	17.93	18.26	16.78	11.96	7.70	4.09	3.19	1.85
Earnings per share (\$) <sup>(7)</sup>	0.77	1.87	1.27	2.82	1.44	1.04	1.03	0.51	0.32
Price Earnings Ratio <sup>(8)</sup>	48.05	9.33	19.84	12.06	16.88	12.32	6.74	16.05	16.07
Weighted average common shares outstanding (000's)	44,500	41,904	42,086	41,517	29,563	16,988	16,398	15,738	11,944

(1) Return on Sales was calculated by dividing net earnings by total revenues.

(2) Return on Assets was calculated by dividing net earnings by average total assets.

(3) Return on Equity was calculated by dividing net earnings by average total shareholders' equity.

(4) Earnings before interest, taxes, dividends, depreciation and amortization.

(5) Funds provided from operations excluding forgiveness of debt for 1990 and funds provided from operations combined with dividend income.

(6) Book value per share was calculated by dividing shareholders' equity by total weighted average number of common shares outstanding.

(7) Earnings per share was calculated by dividing net earnings by the weighted average number of common shares outstanding.

(8) Year-end closing price divided by earnings per share.

\* Unaudited

## CORPORATE DIRECTORY

### Head Office

#### Precision Drilling Corporation

4200, Petro-Canada Centre  
150 - 6th Avenue S.W.  
Calgary, Alberta T2P 3Y7  
Telephone: (403) 716-4500  
Facsimile: (403) 264-0251  
Website: [www.precisiondrilling.com](http://www.precisiondrilling.com)

### Major Subsidiaries

#### CEDA International Corporation

200, 6712 Fisher Street S.E.  
Calgary, Alberta T2H 2A7  
Telephone: (403) 253-3233  
Facsimile: (403) 252-6700

#### Columbia Oilfield Supply Ltd.

9280 - 25th Avenue  
Edmonton, Alberta T6N 1E1  
Telephone: (780) 437-5110  
Facsimile: (780) 436-0229

#### Computalog Ltd.

4500, 150 - 6th Avenue S.W.  
Calgary, Alberta T2P 3Y7  
Telephone: (403) 265-6060  
Facsimile: (403) 237-8493

#### Energy Industries Inc.

4303 - 11th Street N.E.  
Calgary, Alberta T2E 6K4  
Telephone: (403) 250-9415  
Facsimile: (403) 250-1339

#### LRG Catering Ltd.

9280 - 25th Avenue  
Edmonton, Alberta T6N 1E1  
Telephone: (780) 431-3484  
Facsimile: (780) 462-0676

#### Montero Oilfield Services Ltd.

4200, 150 - 6th Avenue S.W.  
Calgary, Alberta T2P 3Y7  
Telephone: (403) 716-4500  
Facsimile: (403) 264-0251

#### Northland Energy Corporation

4600, 150 - 6th Avenue S.W.  
Calgary, Alberta T2P 3Y7  
Telephone: (403) 264-9700  
Facsimile: (403) 234-0854

#### P. D. International Services Inc.

4200, 150 - 6th Avenue S.W.  
Calgary, Alberta T2P 3Y7  
Telephone: (403) 716-4500  
Facsimile: (403) 264-0251

#### P. D. Technical Services Inc.

2nd Floor Trident House,  
Broad Street, Bridgetown,  
Barbados, West Indies  
Telephone: (246) 228-4293  
Facsimile: (246) 426-5992

#### Precision Drilling de Venezuela, C.A.

El Tigre, Venezuela  
Telephone: 011-58-83412701  
Facsimile: 011-58-83412822

#### Precision Drilling Limited Partnership

4400, 150 - 6th Avenue S.W.  
Calgary, Alberta T2P 3Y7  
Telephone: (403) 264-4882  
Facsimile: (403) 716-4968

#### Rostel Industries Ltd.

9699 Sheppard Road S.E.  
Calgary, Alberta T2C 4K5  
Telephone: (403) 720-3999  
Facsimile: (403) 230-9504

## CORPORATE DIRECTORY

### Divisions

#### Drive Well Servicing

7774 - 47th Avenue Close  
Red Deer, Alberta T4P 2J9  
Telephone: (403) 346-8921  
Facsimile: (403) 347-9266

#### Live Well Service

607 - 15th Avenue  
Nisku, Alberta T9E 7M6  
Telephone: (780) 955-2029  
Facsimile: (780) 955-8949

#### Ducharme Oilfield Rentals

4600, 150 - 6th Avenue S.W.  
Calgary, Alberta T2P 3Y7  
Telephone: (403) 716-4770  
Facsimile: (403) 716-4866

#### Smoky Oilfield Rentals

RR #2, Site 7, Box 33  
Grande Prairie, Alberta T8V 2Z9  
Telephone: (780) 532-0788  
Facsimile: (780) 532-5602

### Directors

#### Troy E. Ducharme <sup>(3)</sup>

Calgary, Alberta

#### W.C. (Mickey) Dunn <sup>(2)</sup>

Edmonton, Alberta

#### Robert J. S. Gibson <sup>(1) (2)</sup>

Calgary, Alberta

#### Murray K. Mullen <sup>(3)</sup>

Calgary, Alberta

#### Brian E. Roberts <sup>(1) (3)</sup>

Calgary, Alberta

#### Hank B. Swartout

Calgary, Alberta

#### H. Garth Wiggins <sup>(1)</sup>

Calgary, Alberta

*(1) Audit Committee Member*

*(2) Compensation Committee Member*

*(3) Corporate Governance Committee  
Member*

### Officers

#### Hank B. Swartout

Chairman of the Board,  
President, Chief Executive Officer

#### Dale E. Tremblay

Senior Vice President Finance,  
Chief Financial Officer

#### Larry J. Comeau

Senior Vice President  
Oilfield Specialty Services

#### M.J. (Mick) McNulty

Vice President Finance

#### W.B.G. (Bruce) Herron

Senior Vice President  
Business Development

#### Jan M. Campbell

Corporate Secretary



**CORPORATE  
DIRECTORY**
**Operations Management**
**Ron Berg**

Vice President  
Canadian Drilling

**Neil Brown**

Vice President  
Canadian Wireline  
Computalog

**Martin Byar**

General Manager  
Columbia

**Larry Cavanna**

Vice President  
Computalog

**Roland Chemali**

Vice President  
Research and Development  
Computalog

**Doug Evasiuk**

Vice President, Marketing  
Canadian Drilling

**Tom Facette**

Vice President, General Manager  
Smoky

**Brian Fitzmaurice**

Vice President  
Industrial Services  
CEDA

**Roger Hearn**

Senior Vice President  
CEDA

**Ivan Heidecker**

General Manager  
Energy Industries

**Mark Helmer**

Vice President  
International Drilling

**Carel Hoyer**

Vice President, General Manager  
Northland

**John Jacobsen**

Vice President  
Canadian Drilling Operations

**Joe Kinder**

Vice President  
Western Hemisphere  
Northland

**Greg Kraus**

Vice President  
Catalyst Services  
CEDA

**Mike Larronde**

Vice President, Drilling  
Technology Development  
Computalog

**Larry MacPherson**

General Manager  
Live Well Service

**Ian Martin**

Vice President  
Mechanical Services  
CEDA

**Robert Miller**

Vice President, Drilling Services  
Computalog

**Don Pack**

General Manager  
Drive Well Servicing

**Dwayne Peters**

Senior Vice President  
Canadian Drilling

**Gordon Skulmoski**

Vice President, General Manager  
Ducharme

**Yook Tong**

General Manager  
Rostel

**Doug White**

General Manager  
LRG

## SHAREHOLDER INFORMATION

As a Precision Drilling Corporation shareholder, you are invited to take advantage of shareholder services or to request more information about the Corporation.

### Banker

#### Royal Bank of Canada

Calgary, Alberta

### Legal Counsel

#### Borden Ladner Gervais LLP

Calgary, Alberta

### Auditors

#### KPMG LLP

Calgary, Alberta

### Stock Exchange Listings

Commons shares of Precision Drilling Corporation are listed on The Toronto Stock Exchange under the trading symbol **PD** and on the New York Stock Exchange under the trading symbol **PDS**.

### Trading Profile

#### Toronto

January 1, 1999  
to December 31, 1999  
High: \$40.60  
Low: \$13.25  
Volume Traded - 51.3 million

#### New York

January 1, 1999  
to December 31, 1999  
High: US\$27.75  
Low: US\$8.81  
Volume Traded - 30.1 million

### Share Split

In 1997, Precision's Board of Directors authorized a two for one split of the Corporation's common shares. The record date for the split was September 30, 1997.

### Transfer Agent and Registrar

#### Montreal Trust Company of Canada

Calgary, Alberta

### Transfer Point




#### Bank of Nova Scotia Trust

#### Company of New York

New York, New York

### Account Questions

Our Transfer Agent can help you with a variety of shareholder related services, including:

-  Change of address
-  Lost share certificates
-  Transfer of stock to another person

You can call our Transfer Agent toll-free at: 1-888-267-6555

You can write them at:  
Montreal Trust Company of Canada  
Stock Transfer Services  
600, 530 - 8th Avenue S.W.  
Calgary, Alberta T2P 3S8  
[www.montrealtrust.com](http://www.montrealtrust.com)

Or you can e-mail them at:  
[Inquire@montrealtrust.com](mailto:Inquire@montrealtrust.com)

Shareholders of record who receive more than one copy of this annual report can contact our Transfer Agent and arrange to have their accounts consolidated. Shareholders who own Precision shares through a brokerage firm can contact their broker to request consolidation of their accounts.

**SHAREHOLDER  
INFORMATION****Quarterly Updates**

If you would like to receive quarterly reports but are not a registered shareholder, please write or call us with your name and address. To receive our news releases by fax, please forward your fax number to us. To receive our news releases by e-mail, please go to our website at [www.precisiondrilling.com](http://www.precisiondrilling.com) and refer to the Investor Relations section.

**Online Information**

Anyone with access to the internet can view this annual report electronically at [www.precisiondrilling.com](http://www.precisiondrilling.com)

**Published Information**

If you wish to receive copies of the 1999 Renewal Annual Information Form, or additional copies of this annual report, please contact:

Corporate Secretary  
Precision Drilling Corporation  
4200, 150 - 6th Avenue S.W.  
Calgary, Alberta T2P 3Y7  
Telephone: 403-716-4500  
Fax: 403-264-0251

**Estimated Interim Release Dates**

2000 First Quarter  
May 11, 2000

2000 Second Quarter  
August 10, 2000

2000 Third Quarter  
November 9, 2000

**Annual Meeting**

The Annual General and Special Meeting of the Shareholders of Precision Drilling Corporation will be held in the McMurray Room of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta at 3:30 p.m. (Calgary time) on Thursday, May 11, 2000. Shareholders are encouraged to attend and those unable to do so, are requested to complete the Form of Proxy and forward it at their earliest convenience.



**PRECISION  
DRILLING  
CORPORATION**

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